The Business Advocate Magazine

Nation's Business

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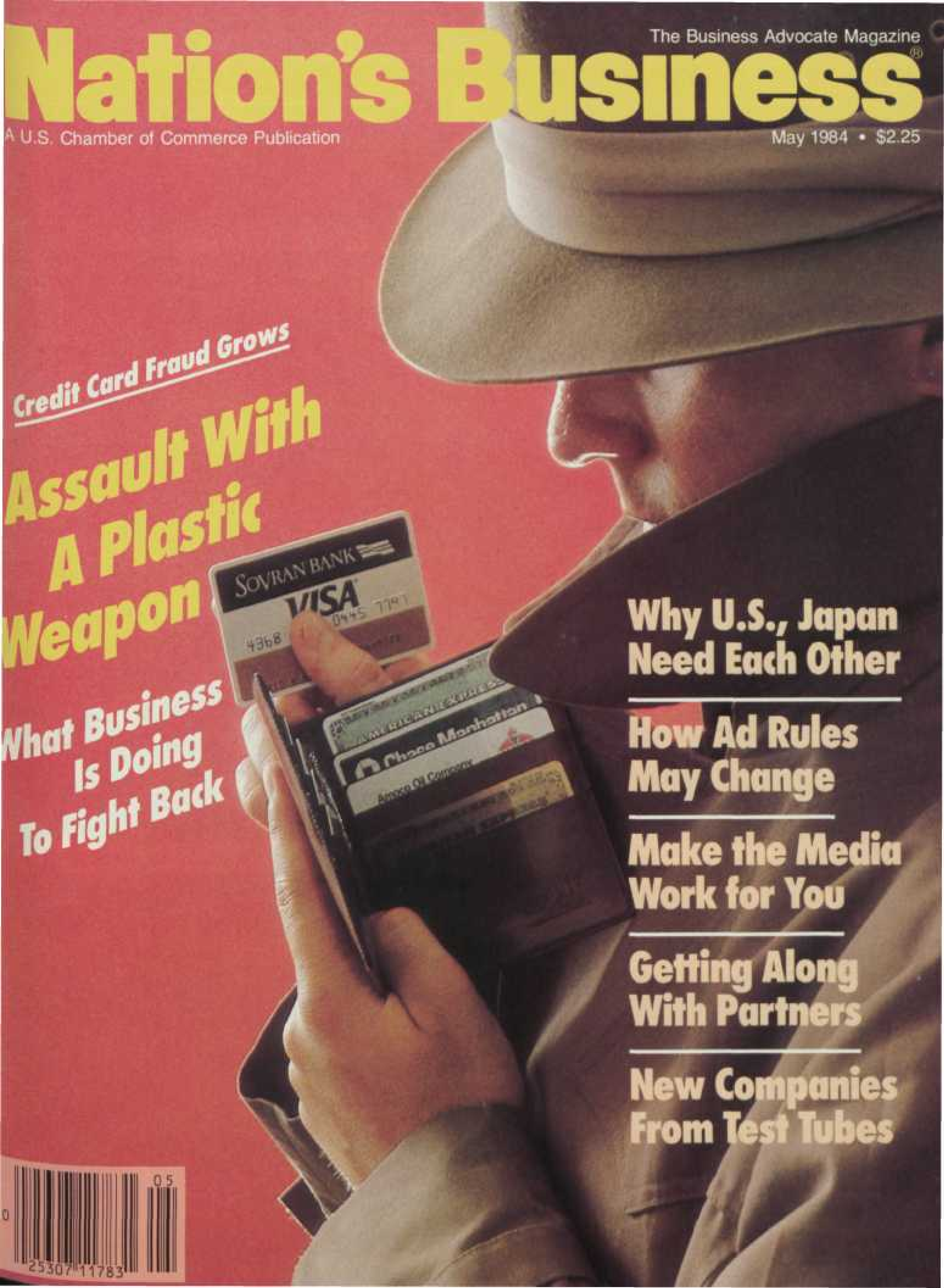

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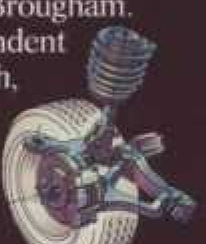

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Electronic Load Leveler

There is a special feel in an *Oldsmobile*


Who cuts your
slice of the pie?

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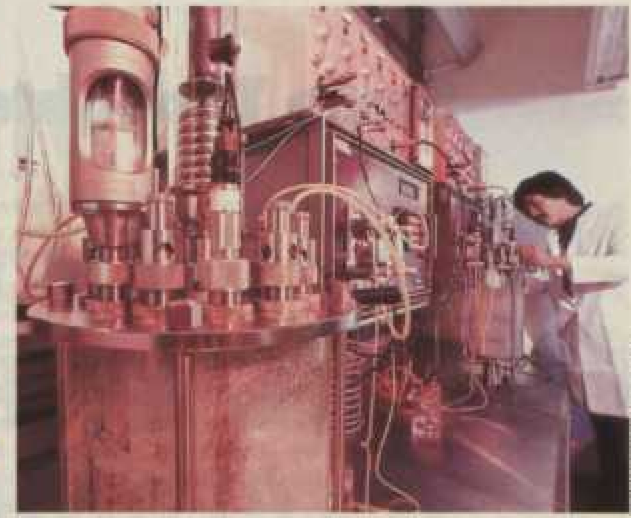

PHOTO: DAN McCOY—RAINBOW

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Some Thoughts on School Prayer

On March 20 the Senate voted on a proposed amendment to the Constitution, designed to authorize voluntary prayer in the public schools. The amendment lost decisively. In one form or another it will return next year, but for the time being the issue will remain in limbo. For that respite, let us be grateful. We need time to sort things out.

The whole business is profoundly disturbing. My own unhappy feeling is that almost everyone who has touched this issue—the courts, Congress, the President, the schools, the churches pro and con—has touched it badly. Somewhere along the line, a reasonable, acceptable, constitutional compromise should have been fashioned. We have all of us had a hand in the failure.

Let us recur to fundamentals. This is the relevant provision of the First Amendment: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof."

In the beginning the language applied only to the national government; after ratification of the 14th Amendment, prohibiting the states from abridging any person's "liberty," the language was held to apply to the states and localities also.

What are we talking about? The first clause has to do with an *establishment of religion*, and it is this clause that has been so grossly distorted in recent years. An establishment of religion is a national church, supported by taxes levied upon all the people. That is all the clause ever was intended to ban. At the time of the Revolution, 9 of the 13 colonies had official churches. When the First Amendment was sent out for ratification in 1789, the object was to prevent this divisive practice from ever becoming a source of national dissension.

As the years have passed, the establishment clause has acquired a far more expansive meaning. Once the clause meant that government should be neutral toward religion. Neutrality somehow has been transformed into hostility, and a tortured construction of the establishment clause has tended to nullify the free exercise clause. Consider:

In 1965, 21 schoolchildren got together voluntarily over their morning cookies and milk. With no orders from anyone they recited, "God is great, God is good, and we thank Him for our food. Amen." The school principal ordered them to stop it, and the U.S. Court of Appeals for the Second Circuit upheld his action. It was a fatuous decision, and it deserves all the condemnation that can be heaped upon it.

In 1970, a group of students at Herbert Hoover High School in Kanawha County, W.Va., began holding a prayer meeting each morning before classes began. If they met to talk about politics, taxes, basketball, the repair of automobiles or the rights of homosexuals, their meetings could have continued. But they were praying! They were talking about God! The school principal broke up the meetings, and a U.S. district court backed him up.

Faith has always been intertwined with affairs of state.

A high school student named Bonnie Bailey summed up the bizarre situation in Senate testimony: "We can picket, we can demonstrate, we can curse, we can take God's name in vain, but we cannot voluntarily get together and talk about God on any part of our campus, inside or out of the school."

I put it to you straight: This is crazy.

The conflict between the free exercise clause and the establishment clause is matched in intensity by the conflict between minority rights and majority rights.

Everyone agrees that a majority cannot lawfully deprive a minority of any right secured by the Constitution. A majority could not vote to padlock a church, shut down a newspaper or deny the citizen on welfare a right to vote. But it is far from clear that in the examples I cited earlier, a minority was being deprived of anything.

And to paraphrase Chief Justice Warren Burger in the recent Pawtucket, R.I., case, any notion that a real danger of establishing a state church is posed by schoolchildren praying over cookies and milk "is farfetched indeed."

Well, let the issue simmer for a while. Since 1962, I have read a hundred court decisions and a thousand pages of testimony and debate in this controversy; my feelings remain ambivalent.

It would be intolerable, I believe, for a state to prescribe some official prayer to be said "voluntarily" in the schools, because voluntarism under compulsory attendance laws is a will-o'-the-wisp. But a minute of silent prayer? Truly voluntary prayers before school? I believe the free exercise clause is still in the Constitution, and I believe it protects such conduct.

From the beginning of this republic—read the Declaration of Independence—religious faith has always been intertwined with affairs of state. Our coins, our courts, our legislatures, our public rituals, all attest obeisance to a divine power. This controversy involves the right of children voluntarily to join in prayer in the surroundings in which they spend most of their formative years. When that right effectively is denied them, something is gravely wrong. □

Nation's Business

WASHINGTON LETTER

▶ ACCOUNTANTS URGE ACTION in wake of Supreme Court decision denying them same confidentiality enjoyed by lawyers (see For Your Tax File, page 13). At stake is companies' willingness to continue giving independent accountants all data they need in handling tax matters if they fear Internal Revenue Service might seize such documents. IRS says it will follow past practice in asking for tax accrual work papers only in "unusual" cases. But accountants may seek legislative relief if they find themselves losing tax business to lawyers who tell clients that company records are safer with them.

▶ UNIONS ARE SO UPSET by another Supreme Court decision--this one affecting labor contracts--that they pulled out all stops to overturn it in Congress. Union-backed amendment to bankruptcy law would reverse February ruling that bankruptcy courts can allow cancellation of labor contracts when they impede company reorganization. Unions feared losing valuable organizing tool. They want to be able to tell workers: "Join us. If your company fails, you will have first claim on company assets." Opponents say other laws provide ample safeguards for union workers in cases of bankruptcy.

▶ IN RECENT OFFICIAL VISIT to Washington, French President Francois Mitterrand told U.S. Chamber of Commerce leaders he plans no more nationalization of French industries during his administration. But the French socialist leader reacted testily in private session to suggestion that state-owned companies be returned to private sector. U.S. policies also figured prominently in conversation, with Mitterrand and business leaders agreeing on opposition to domestic content laws, on need to eliminate "unitary" state taxes on multinational firms' global operations and on support for modification of export controls.

▶ THREE ISSUES DISCUSSED with Mitterrand are due for action. Domestic content legislation, requiring that autos sold in this country contain specified percentages of U.S. parts and labor, passed House last year but not Senate. It will be subject of hearings in May before Senate Commerce Committee. Business opposes protectionist legislation that shackles open trade and invites reprisals that would wipe out U.S. jobs. Unitary taxes (see page 58) are being studied by group of governors, business people and federal representatives. Group is due to report soon with recommendations to meet states' claims of taxing authority and other countries' complaints that state taxes violate U.S. tax treaty obligations. Changes to make export controls more responsive to business are contained in provisions of six-year renewal of Export Administration Act, now near final congressional action.

▶ RETIRING HEAD of Occupational Safety and Health Administration, Thorne Auchter, fires final salvo at critics. "For the past three years, the same people have repeated the same criticisms," he says, "regardless of our documented progress. 'Don't confuse me with facts,' they seem to say, 'I've already made up my mind.' " Bottom line, Auchter says, is greater acceptance of OSHA professionals on job sites and unprecedented record of steadily declining job injury rates for last two years.

▶ BUSINESS' LEADING TELEVISION VOICE now reaches about half of total U.S. households. "BizNet News Today," morning news

show of U.S. Chamber of Commerce broadcasting system, has been added to program lineup of USA Network, which serves 21 million subscribers through nearly 4,000 cable systems. Early edition of news show is aired at 6 a.m., EST, for USA Network. Regular news show, starting at 7 a.m., already reaches 26 million households.

▶ COUNTERFEIT AUTO PARTS have invaded U.S. market to the tune of $6 billion to $8 billion annually, says Virginia H. Knauer, consumer affairs adviser to the President. These parts are produced in Taiwan, Brazil, Colombia, Singapore and the Philippines, fraudulently labeled with well-known brand names. Cut-rate competition has eliminated 60,000 U.S. manufacturing jobs. For the consumer, says Knauer, "these counterfeits mean danger and even death." She supports legislation to increase civil penalties and impose new criminal sanctions.

▶ SEVERAL DOZEN SENATORS and representatives have cosponsored "creeping capitalism" bill to make defense procurement more cost-effective by requiring more open bidding. Chief sponsors Rep. Jim Courter (R-N.J.) and Sen. Charles Grassley (R-Iowa) say bringing new companies into competition for Pentagon dollars would lower costs by increasing production innovations. Only 6 percent of total defense procurement is now done by entirely open bids. Bill would require that open bidding go up 5 percent each year, until 70 percent of Pentagon buying is competitive.

▶ FEDERAL OUTLAYS for research and development, principally in defense, are zooming. National Science Foundation reports that total R&D funding will increase 18 percent this year, largest rise in 20 years. This compares with 6 percent increase from 1982 to 1983. Of $45 billion to be spent on R&D programs this year, defense will account for $30 billion. Industrial firms doing R&D under contract will get 28 percent increase. University funding will rise 6 percent.

▶ HIGH TECH CLOTHING that protects wearer from heat and cold is on the way, say Agriculture Department scientists. Treated with easily produced "plastic crystals," clothing would absorb and store heat, release it when wearer goes out in cold. First applications are likely to come before end of decade in home insulation, but clothing would be next. Crystals are likened to tiny heat pumps that change their structural form with temperature.

▶ COMMERCIAL OPPORTUNITIES IN SPACE will be focus of June 7 national videoconference. Innovative companies already operating in space will share experiences with conferees across country. Conference will originate at Washington studios of BizNet, the television system of U.S. Chamber of Commerce, with audiences in 25 other cities participating via two-way transmissions. The sponsor, National Chamber Foundation, also will use conference to disclose findings of its yearlong Space Enterprise study. More information from Kathryn Little, project manager, at (202) 463-5552.

▶ U.S. STOCKPILE of strategic and critical materials grows by cash purchases and barter. One million tons of bauxite will come from Jamaica through barter of agricultural products. Federal Emergency Management Agency reports that for latest six-month period, $88.3 million also was awarded in cash contracts for bauxite, beryllium, cobalt, platinum-iridium, quinidine and vanadium. Spending for stockpile since inception is $267 million in cash and $1.6 billion in barter.

▶ CONSTRUCTION UNIONS CONTINUE TO LOSE GROUND, with open-shop firms now doing 70 percent of all building. Higher productivity and efficiency are weapons of nonunion contractors winning more and more bids. Associated Builders and Contractors President Pat A. Alibrandi says, "As unions scramble to become more competitive, the truest measure of success will be not who builds more projects but who does more to improve the industry." Open-shop construction firms, like the 17,000 in ABC, have been garnering more contracts in such formerly union-dominated cities as Atlanta, Miami, Boston and Los Angeles.


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The B-Schools Are Punting

I must take issue with the general tone of "Molding Managers for the Tests of Tomorrow" [April] and, in particular, with Dean L. William Seidman's observation that statistics, marketing and computers are, in football terms, representative of the blocking and tackling needed before management gets into the fancy plays.

They are not. Problem solving, decision making and action taking are the blocking and tackling of management. Statistics, marketing and computers are the fancy plays.

Far too many graduate business schools orient themselves toward presenting yet more of the chrome and glass—and plastic. They simply add one more layer to the clerical, bureaucratic mentality so carefully developed in previous schooling at the primary, secondary and undergraduate levels.

Aspiring professional managers need first and foremost to understand and internalize their potential for intelligent, purposive and responsible action in the resolution of complex, interdependent problems. Being exposed to multiple regression analysis, artificial intelligence and microcomputers affords only a peripheral opportunity to satisfy those central needs.

DONALD L. WALLACE
Winston-Salem, N.C.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

You did a splendid job of producing a roundup from what must have been a varied and unwieldy group of interviews. I think your piece certainly reflects accurately what is going on here at the Wharton School and in the business education field generally.

MARK LEVENSON
Director of Press Relations
The Wharton School
University of Pennsylvania
Philadelphia

Zipping to the defense

As I hear and read the continual stream of complaints leveled at the Postal Service, like the one in your Letters column [March], I often wonder whether those who do all the complaining do business with the same Postal Service that I do.

Every Sunday morning I write a three- or four-page letter to members of my family. The letters are mailed every Monday afternoon from Morristown, N.J., and almost without fail reach their destinations by Wednesday of the same week: Colorado Springs, Boulder and Denver, Colo.; Palm Beach, Fla.; Scottsburg, Ind.; Red Bank, N.J.; and West Chester and Easton, Pa. Every once in a while delivery slips to Thursday.

I am no big supporter of many of the institutions of Big Government. All in all, however, I can't complain about the U.S. Postal Service. Incidentally, this letter is being mailed March 13. When did it reach you?

SAMUEL W. LAIRD
Morristown, N.J.

Editor's note: *March 16.*

Bigger bottom line

"Getting the Right Price for Your Firm" [March] points out that a business owner can work 10 to 20 years to realize what he would net by selling the business. Though that point is well taken, we disagree with the personal net income (after taxes) figure of $37,125 realized by the owner as a result of business operations.

Unless the $74,250 annual profit less corporate taxes was declared as a dividend, the double taxation shown in the chart would not occur; therefore, the tax liability would be much less. We must assume that the full $100,000 is to be distributed to the owner as salary or bonus. Since salaries and bonuses are tax-deductible for a corporation, a zero net income would result. The personal income tax rate of 50 percent would then apply to the full $100,000, result-

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ing in a bottom line of $50,000 for the owner, not $37,125.

If a proprietorship or partnership was set up as an S corporation, there would be no corporate tax, since all of the net income would flow directly to the owner(s). Once again, the full $100,000 would be taxed at 50 percent, with a $50,000 profit.

Even at $50,000 a year, it would take eight years to equal the $400,000 gained from selling the business, so your premise is still valid.

MARCUS R. FEDOR
CHARLES M. DRAGOO
Ohio Casualty Insurance Company
Hamilton, Ohio

Sacrificial civil servants

The criticism of the civil service retirement system ["The Saving Grace," March] perpetuates the myth that civil servants are raping the taxpayers and rolling in benefits.

By developing the skills unique to our little-respected profession, most of us have sacrificed employability in the private sector. That we have done so is due in no small part to the promise of certain benefits. Those benefits are not free—we were paying 7 percent off the top long before anyone else did. Is it our fault that our employer squandered the money?

If your bank's pension manager did what Uncle Sam has done, you would expect your pension anyway as long as the bank itself was solvent. Should civil servants demand less?

H.C. MORKOVSKY
San Antonio, Tex.

It never ceases to amaze me how seasoned journalists can take a subject that has been written about as extensively as the federal budget and give it a new treatment. Controlling federal spending is so very important, and the problems must be brought to the attention of the American people.

J. PETER GRACE
Chairman and Chief Executive Officer
W.R. Grace & Company
New York

How it plays in Peoria

Your publication has offered its readers much valuable information not obtainable elsewhere in the media. Recently, however, I picked up a copy of the December, 1983, issue, and a story ["'84 Elections: How Business Hopes To Win"] that prominently mentioned Rep. Robert Michel (R-Ill.) caught my eye.

If you must write about Illinois' 18th district, you should first interview a cross-section of the citizens and check your sources. Your piece reads as though it were copied from a Michel campaign poster. I find the voters in

the 18th district to be fairly knowledgeable about local politicians, their deeds and their misdeeds. Your article would certainly draw much laughter in Peoria.

The recession was not entirely responsible for Michel's close call; his move away from his constituents must also be considered.

WILLIAM JACKSON
Peoria, Ill.

Panacea

Re: "Rebellion Against Deficits" [March]. Well done.

The drive for a balanced-budget amendment has been a much-suppressed campaign in our nation's establishment news media. I am a very firm believer in a balanced budget and contend that it will cure a majority of our nation's—and many of the world's—ills.

DAVE PURKEY
Duarte, Calif.

What's the best way to cut deficits? I suggest a constitutional amendment requiring a balanced budget. The experience of 1982 should tell all of us one thing—a promise by Congress to reduce spending is meaningless. The 3-for-1 reduction in spending per tax increase translated into more than $1 spent for each new dollar raised. This election year will bring nothing but demagoguery and more spending, not efforts to reduce the deficit.

CHARLES R. HUDDLESTON
Florissant, Mo.

Stuck at the bottom

Re: "Keep Minimum Wage As Is" [Letters, February]. Ray Williams obviously did not start at the bottom, making only the minimum wage. Perhaps he should consider the employe's point of view.

Times are as hard on the employe as they are on the employer. Many workers would not be working for their company if they could find something better. Most companies know this, so these people will continue working at the minimum wage until it is raised.

JAMES BOYD
Henderson, N.C.

Unanswerable questions

Two of the questions posed in your "Where I Stand" feature [April] cannot be answered yes or no.

One asks: "Should business people play a greater role in vocational education?"

It is not just a matter of agreeing that business people should play a greater role in vocational education. Other considerations are where the money goes—to whom and through whom. Just because an idea has merit does not obviate the obligation to see that it is properly, fairly and efficiently administered.

Another question asks: "Should the federal government move toward a reduced presence in agriculture?" It is impossible to answer this question yes or no, if only because most citizens do not have the knowledge to reach such a judgment.

You make the point that "some business and farm interests think the government should get out of subsidizing agriculture." What is your definition of agricultural interests? Who are they?

The most important factor is preservation of our ability to feed ourselves and to export. I am constantly reading of farmers' going broke and having to sell their farms, their equipment and their houses to pay their debts. Most of these articles describe these farmers as hardworking members of families that have been in farming for three or four generations. Does this mean the subsidy program is faulty?

I think it is dead wrong to put this question to your readers as if it involved a simple problem.

JAMES STEWART
New York

Sad song about delinquents

Perhaps the Navy is the worst bill payer, but school districts do not lag far behind ["Cutting Procurement Paper Work," March].

Something must be wrong when it takes six to eight weeks—and even six months—to be paid for my products, music materials for schoolchildren. After making several phone calls, mostly long-distance, and allowing for discounts because I want to help in the education of students, I find that I receive little compensation.

I spend much time with the teachers who need the equipment, helping them spend their budget prudently, with enough money left for state tax and shipping. I cannot then charge interest, since I know they cannot pay it. And a second billing will only create time problems.

ELFRIEDE PARKINSON
Owner
Friedel Musikalien
Redwood City, Calif.

Sister publication

In March the New Zealand Chambers of Commerce introduced its all-new monthly, *Business TODAY*, and I have unashamedly modeled it somewhat on your publication.

I only hope that with our rather limited resources, we can do half as well.

PETER J. WAKELIN
Executive Director
New Zealand Chambers of Commerce
Wellington, New Zealand

Those Interest-Free Loans

By Gerald W. Padwe, C.P.A.

We have always known there is no such thing as a free lunch. Now the Supreme Court has extended the rule so that there is no such thing as an interest-free loan—at least when gift taxes are involved.

In late February, the Court handed down its much-awaited decision in *Dickman v. Commissioner*, sustaining the Internal Revenue Service's position that intrafamily demand loans, on an interest-free or low-interest basis, include a gift element—the value of the use of money to the debtor, less the amount of interest paid to the lender.

Chief Justice Warren Burger, writing for the 7-2 majority, also allowed IRS' valuation of the interest element in *Dickman*: IRS imputed the statutory interest rate—currently 11 percent—on tax deficiencies or refunds to the face amount of the loan.

In a relatively short paragraph that may cause significant problems for some taxpayers, the Court also held it perfectly proper for IRS to attack intrafamily loan relationships retroactively. Thus, if no gift tax return has been filed for such loans in the past—because a taxpayer believed no gift was involved—IRS can go after what may be some very old years.

The great majority of taxpayers will not be affected by the *Dickman* decision. Since 1982, a taxpayer has been allowed to give up to $10,000 apiece annually to any number of donees without having to file a gift tax return. (If a husband and wife elect to treat a gift as two gifts of equal size, one made by each of them, there is an effective $20,000 annual exclusion.)

Even when the $10,000 exclusions are exceeded, no tax need be paid until such transfers, cumulatively, exceed an exemption that is available against either gifts during life or bequests after death. The amount in 1984 is $325,000.

Further, even though the *Dickman* decision allowed IRS to use the statutory interest rate, the Court recognized that the value of the loan's gift element could be reduced because it is payable on demand rather than at a fixed point in the future.

Using the IRS approach, today's 11 percent interest rate would still permit a loan balance of $90,000 before the gift element exceeded the donor's annual gift tax exclusion of $10,000. For combined husband-wife gifts, a $180,000 loan could come within the exclusions.

In other words, interest-free loans as intrafamily planning devices are not dead. For many they still represent an excellent planning opportunity.

Warning: Congress also is scrutinizing interest-free loans, those among family members and those from a corporation to an employe or shareholder. If any tax legislation is passed in 1984, some provision affecting such loans is likely to be included.

AT&T Divests: Round Two

Last month's column provided some guidance for those of you deciding how to handle fractional share distributions from old American Telephone & Telegraph, made as a result of its Jan. 1, 1984, divestiture. Involved were fractional shares in the new regional holding companies for pre-1984 AT&T shareholders owning between 10 and 500 shares. The article listed the relative fair market value of the regionals on January 1 and explained how to allocate tax cost in the original AT&T shares to any interest in the regionals (including fractional shares) that might be sold.

There is an additional complicating factor that must be considered. In a 56-page, single-spaced private ruling, IRS has spelled out its view on most of the tax consequences of the AT&T divestiture. One of the points made in the ruling: A yet-to-be-determined percentage of the Pacific Telesis stock received in the distribution to old AT&T shareholders represents a taxable dividend to those shareholders, even if none of the Pacific Telesis stock is sold.

In IRS' view, an earlier transaction involving old AT&T and Pacific Telephone & Telegraph—Pacific Telesis' predecessor company—makes a small part of the Pacific Telesis distribution taxable, even before fractional share sales.

Counsel for AT&T disagrees with the IRS position and argues that the entire original distribution is tax-free. But the company estimates that, even if the IRS position prevails, only about 7 percent of the Pacific Telesis stock will be treated as a dividend. The remaining 93 percent will still be tax-free.

Should the IRS position ultimately be upheld—and an IRS ruling is only an opinion, not a final decision—a new calculation would be required as to the relative fair market values on Jan. 1, 1984, of the tax-free part of the distribution of Pacific Telesis. If 7 percent of that stock is a dividend, only 93 percent of its January 1 market value, rather than 100 percent, goes into the allocation formula.

Assume a shareholder has 100 shares of old AT&T. He receives 10 shares of each regional as a result of the divestiture. Average market value per share of Pacific Telesis on Jan. 1, 1984, was $55.78. Thus, of the $557.80 market value of those 10 shares, 7 percent (or $39.05) is a taxable dividend rather than a tax-free distribution—if IRS is correct.

Much ado about nothing? Yes, for this particular shareholder. But, apply the same reasoning to 950 million old AT&T shares, and the potential dividend income to be reported would be approximately $371 million.

IRS and Your Auditor

The Supreme Court, in a unanimous opinion (*U.S. v. Arthur Young*), has held that IRS may use its summons power to obtain an independent auditor's analysis of a firm's tax liability.

These "tax accrual work papers" are based on the company's books and records, discussions with its management and the auditor's opinion of positions the business takes on its tax returns. Summonses would thus intrude on a relationship in which there is a substantial element of confidentiality.

Business people need expect no rash of summonses, however. IRS currently operates under a program of voluntary restraint—it seeks access to accountants' work papers only in "unusual circumstances" and after attempting first to obtain information directly from the taxpayer. There is no reason to expect the decision to lead to radical changes in IRS policy. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director–tax practice for Touche Ross & Co.*

Are Indexed U.S. Bonds Ahead?

The fastest-growing piece of the federal budget pie? Outlays for interest payments on the $1.3 trillion public debt—they are expected to rise 16 percent this year, to $150 billion.

That makes interest the third largest federal expenditure, after defense and Social Security. The entire federal budget was less than $150 billion as recently as 1966.

To slow the interest cost spiral, the Treasury Department is now considering a plan to issue bonds indexed to the inflation rate. Such a plan could save billions.

Investors would no longer have to demand an interest premium because of uncertainty over the future inflation rate.

"Britain's issuance of indexed bonds," says Sir Alan Walters, a former economics adviser to Prime Minister Margaret Thatcher and now a Johns Hopkins University professor, "has helped instill confidence that the government there is serious about reducing inflation." Indexing bonds limits governments' ability to pay off bonds with inflation-cheapened money.

The Treasury Department is split over the idea. Economists like Treasury Undersecretary Beryl Sprinkel favor the move, but Thomas Healey, assistant Treasury secretary for domestic finance, has his doubts. "If I could do anything to reduce interest costs, I would," Healey says, "but there is no visible appetite for indexed bonds in the institutional market."

One question that must be answered before such bonds are issued is whether the revenue loss will be greater than the reduction in interest payments on the debt.

The answer depends on how the bonds are taxed and on the size of the uncertainty premium.

But, Walters says, any constraint on government power to expropriate individuals' savings through inflation is a good idea.

Revenues on the Rise

Millions of dollars	Fiscal 1983	Fiscal 1984
October	$ 40,539	$ 45,156
November	42,539	46,200
December	54,498	58,041
January	57,505	62,537
February	38,816	47,886
5-Month Total	$233,365	$259,827

Source: U.S. Treasury Department

Treasury receipts in the first five months of the current fiscal year were 11.3 percent higher than those during the same period a year ago.

The Robust Recovery

Whether you call it supply-side economics or surprise-side economics, the good news is that the Reagan administration's pro-growth economic policies are working. Government figures for the first five months of the current fiscal year tell the tale:

- The budget deficit was $12.4 billion smaller than forecast, largely because total spending was down $10.5 billion. Notable was a $7.7 billion drop from last year in Agriculture Department outlays; spending at the Labor Department was down $5.7 billion. Interest paid on the public debt, however, rose $7.2 billion above the total for the same period last year.
- Revenues were up 11.3 percent over those of a year ago, when the recovery was just getting under way. Individual income tax receipts were running $4.7 billion ahead of last year even though most tax rates were cut 10 percent in July. Rising employment—4.7 million more people were on the job in February than 12 months earlier—boosted employment tax receipts $11.2 billion. Corporate income tax collections were up more than 70 percent.

In addition, total private domestic investment rose 35.8 percent during the first four quarters of the recovery, as opposed to a postwar average rise of 26.4 percent during comparable periods.

Most important, the economy in 1984 shows early signs of proving most prognosticators wrong—just as in 1983, when many economists failed to forecast the strength of the recovery.

Less than three months after issuing its annual forecasts of growth and employment, President Reagan's Council of Economic Advisers in April revised upward its forecast of growth this year, from 5.3 to 5.9 percent.

The April revision did not change the earlier forecast that growth over the next four years will average 4 percent. But if the economy grows one percentage point faster than this rate, $85 billion could be slashed from the deficit in 1989, says one Treasury Department official.

The overall unemployment rate—a figure that includes civilian and military workers—is now expected to average 7.5 percent in the last three months of the year.

In February the CEA forecast a 7.7 percent unemployment rate in the final quarter. Each percentage point drop in the unemployment rate cuts the deficit between $25 billion and $30 billion, through a combination of reduced spending and higher revenues.

The early trend points to an expansion that is stronger than many expected.

The unanswered question is whether the Federal Reserve Board will move to choke off the expansion. Growth that is too fast, says Fed Chairman Paul Volcker, is not sustainable and may bring back higher inflation. But how fast is too fast? Economists cannot agree.

Economists can agree about one thing, though: High enough growth is one way to reduce the budget deficit without raising taxes or cutting spending.

Causes and Effects

Remember when big budget deficits were alleged to be the cause of high interest rates? Or when high U.S. interest rates were said to be the cause of high interest rates in Europe?

Recent events here and abroad have poked big holes in those theories. Two days after the White House and Senate Republicans reached agreement on a $150 billion "down payment" on the deficit, U.S. interest rates went up. The reason: strong credit demand.

At the same time that interest rates were on the rise in the United States, they dropped a percentage point in London. Why? Because of more evidence that inflation in Britain is under control. □

Who Speaks for Small Business?

GOPer Frank Fahrenkopf

Rob Bender of the DNC

Republican or Democratic—which is the party of small business?

Although the Democratic National Committee had a two-year head start in the race for that title with establishment of its small business council, the Republican National Committee is playing a good game of catch-up with the recent formation of a similar group.

Citing a long record of GOP support for small business, Republican National Committee Chairman Frank J. Fahrenkopf, Jr., says the RNC's advisory council was formed to ensure that small firms' interests are represented in the party's 1984 platform.

Twenty-four small business leaders from around the country have been named to the council.

"These members were hand-picked for their knowledge and experience concerning small business," Fahrenkopf says. "They will be asked to come to Washington to organize, develop and implement an agenda geared toward helping small business and our nation's economy."

The RNC advisory group will provide "hands-on information" to the platform committee, Fahrenkopf says, and will offer legislative proposals and policy recommendations to the Reagan administration.

Seven hearings by the council, beginning at the end of March and continuing through this month, are focusing on "key issues and concerns of small business," adds Fahrenkopf. More than 1,100 small business and trade association representatives have been asked to testify.

But the Republicans are "Johnny-come-lately" compared with the Democrats, says Rob Bender, director of the Democratic National Committee's small business council.

With an eye toward capturing more small business votes, the DNC formed its group in May, 1982. "We've been working on small business as a part of constituency development within the party since that time, promoting small business as an integral part of the party," Bender explains.

The DNC's committee now has about 150 small business members, including, Bender says, eight Republicans "who joined back in 1982 when we were the only game in town."

Bender sees the formation of small business councils by both parties as "a positive thing," though, he says, the Democratic action "pressured" the Republicans to follow suit.

But copying the competition works both ways. "We try to emulate the Republicans' fund-raising techniques, and they're imitating our small business efforts," Bender says.

More Clout for Women

A presidential election year puts politics on everyone's minds, and small business is no exception.

The National Association of Women Business Owners has announced an Action '84 plan to make women entrepreneurs "stronger and more directly a part of America's economic and political system," according to NAWBO President Sharon Poindexter.

Poindexter, who heads an association with chapters in 28 states, says that the six-point plan will help "reinforce the awareness and recognition of the vital role that women entrepreneurs have in government and politics."

Although the Women Business Owners Political Action Committee, which NAWBO helped launch last year, will raise money for candidates' campaigns, the organization will not endorse a presidential candidate this year.

NAWBO's deeper political involvement in 1984, says Poindexter, will range from helping register voters and raising money for campaigns to drafting platform language.

The group's board of directors also has adopted 11 small business policy positions on the federal budget deficit, federal regulation, job creation, access to capital, government competition with the private sector, competition from commercial nonprofit organizations and representation on federal policy committees and commissions.

Small Firms' Big Problems

Poor management and finding good employes are bigger headaches for small business owners than high interest rates or lack of capital, a new study shows.

A survey of owners of companies with less than $300,000 in annual sales, conducted by the Comprehensive Accounting Corporation, points out that management problems plague entrepreneurs.

"Most of the critical problems facing small businesses are within the owner's ability to control or correct through better use of information and counseling," says Leo Lauzen, chairman of the Aurora, Ill., firm.

Bad management was cited by 33 percent of the respondents as the chief reason for business failure. Lack of business experience and lack of dedication by the owner were both cited by 16 percent of the small business owners. Inadequate capital was mentioned by 21 percent of those surveyed.

Thirty-eight percent said finding good employes is a key hurdle to successfully running a business.

In ranking the importance of information sources, 6 in 10 of the owners cited their spouses as very important, followed by accountants (51 percent), bankers (41 percent) and trade associations (24 percent).

Although a spouse can be an important adviser in family-run businesses, Lauzen says, "clearly, other sources of information are being misused or ignored."

He says that "professionals such as accountants and bankers should be primary advisers," adding: "Trade associations exist primarily for the purpose of helping business people. We believe the business owner should pay more attention to those sources and use them on a regular basis." □

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Assault With a Plastic Weapon

Credit card fraud is a mounting menace to business. But business is fighting back.

By Mary-Margaret Wantuck

ROBBERS ARMED with machine guns and wearing ski masks stole 6,000 credit cards from the California plant that had made them. Only half have been recovered.

Several men rented motel rooms near Benton Harbor, Mich., and began telephoning orders to stores for merchandise. They charged the orders to fraudulently obtained credit card numbers. The merchandise was delivered to the motel and quickly fenced. The ring's take was up to $25,000 a week before the law caught up with it.

In Florida, credit card counterfeiters paid hotel, retail and car-rental employes $5 each for carbon slips showing names and account numbers of cardholders.

A woman's telephone credit card was stolen from her purse while she was visiting New York City, and she later received a phone bill for nearly $195,000 in calls charged to her account.

Those incidents are just a sampling of thousands upon thousands that, taken together, constitute the fastest-growing crime against business in America today: credit card fraud.

"It is now easier, safer and more profitable to steal with a credit card than with a gun," says Larry Schwartz, president of the Fraud and Theft Information Bureau of Boynton Beach, Fla. His firm helps businesses, law enforcement agencies and cardholders fight credit card fraud. "It's like a fire raging out of control," he says.

The potential for fraud is enormous: In the United States alone, companies and financial institutions have issued some 600 million cards to 116 million people.

These cards can be used in person, or the name and number can be written on mail orders or telephoned to a wide range of vendors. The cards can also be counterfeited, lost, stolen from the holder or diverted from the mails. Names and account numbers can be obtained in a variety of ways for use in illegal purchases. Estimates of the losses from credit card fraud range from $500 million to $3 billion a year.

Such losses are a relatively small part of total credit card transactions,

but the sharply increasing growth rate of the fraud concerns law enforcement officials and businesses.

VISA and MasterCard losses alone were up 50 percent from 1982 to 1983—from $135 million to $200 million—according to the American Bankers Association. Both card companies are owned by bank consortiums.

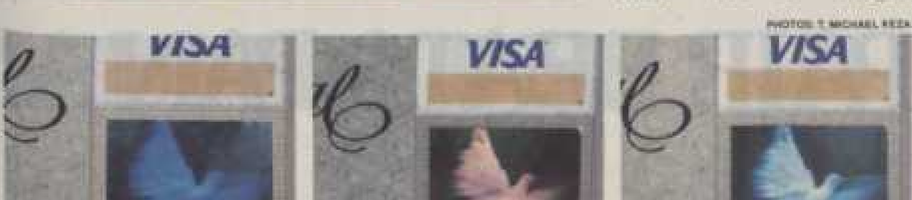
American Telephone & Telegraph Company reports that telephone calls made through illegal use of credit card numbers were up an estimated 37 percent last year—from $69.5 million the year before to approximately $95 million.

Growth in credit card fraud is spurring a massive counterattack by businesses that issue and accept cards. This counterattack ranges from improving security at the point of sale to incorporation of high technology security features in the cards themselves.

Daniel Brigham, a spokesman for VISA International, says use of cards stolen from the holders accounts for 35.9 percent of illegal transactions. These transactions average $650. The next most common abuse, accounting for 29.2 percent of illegal transactions, is with cards that holders have lost. The average use here totals $1,047. The next category, at 24 percent, is diversion of cards sent through the mails. This involves the highest average dollar loss—$1,919. Counterfeit cards account for only 11.2 percent of the fraud but result in the second-highest dollar loss—an average of $1,102 per card.

PHOTO: WAYNE SORCE

PHOTOS: T. MICHAEL KEZA



Credit card fraud losses in the U.S. have reached staggering proportions. Annual losses are estimated to run as high as $3 billion. Above, Thomas Kelleher, MasterCard security chief, puts scissors to seized fraudulent cards. One VISA anticounterfeit device is a hologram dove that changes hue when the card is tilted.

Typically, lost and stolen cards go through three cycles of fraud. They are first used for large purchases with a quick resale value, such as expensive jewelry. Once the dollar limit on such a card is reached, the criminals switch to lower-price transactions that do not involve validation by a sales clerk, thus bypassing a checkup showing that the credit limit has been reached.

VISA and MasterCard do not require validation for purchases under $50 and $75, respectively, and they absorb fraudulent charges within those limits. Under the law, the holder of a credit card is required to pay no more than $50 of illegal charges, provided the loss or theft is reported.

Once all use of the lost or stolen card has been blocked by notices to merchants, it enters the counterfeit category, where it is recycled for a final time with a new name and account number. A principal use of such cards, VISA reports, is to buy merchandise for resale through storefront fencing operations posing as legitimate discount merchants.

More than 93 percent of fraudulent credit card activity occurs in 12 states: New York (mainly New York City), Florida, New Jersey, California, Massachusetts, Pennsylvania, Connecticut, Texas, Illinois, Michigan, Virginia and Nevada.

In addition to fraud, credit card counterfeiting has spawned violence and even murder. After one man told a federal grand jury of organized crime's involvement in such activities, his wife, 9-year-old stepson and 26-year-old nephew were all slain.

VISA's Brigham says that, as recently as 1981, his company's "counterfeit losses were not even statistically measurable." By last year, however, they stood at $20 million, nearly double the 1982 total.

Criminals obtain legitimate account numbers in several ways:

- Searching a merchant's trash for discarded carbon sheets from credit card transaction slips that bear the name of the cardholder, the account number and the expiration date.
- Buying stolen cards.
- Getting temporary jobs as mail- or telephone-order clerks.
- Working for a bank or having a confederate who does.
- Duping cardholders into revealing account numbers over the phone by, for example, impersonating a card company representative.
- Looking over the shoulder of someone making a legitimate purchase.

Once in possession of the account number, a crook can alter a card by shaving off the old number and pasting on a new one. Other techniques include removing the old number with heat, or even with a hammer, and embossing the card with a new number.

THERE IS ALSO the "white plastic" scheme. Authentic plastic blanks, probably stolen from a card manufacturer, are embossed with the name, number and expiration date from a legitimate card. This new card carries no issuer or card company logo.

The scheme depends on the cooperation of a dishonest merchant willing—for a split with the crook—to imprint the card data on a charge slip and pass it on to his bank as a valid transaction for payment.

Finally, some sophisticated counterfeiters manufacture their own cards. Card counterfeiting has even donned academic garb. A New Jersey "school" was discovered to be offering classes in counterfeiting and related fraud. In lieu of a diploma, students were sold cards to use. "Placement" consisted of providing graduates with a contact who would buy stolen merchandise.

Another major area of credit card

fraud involves criminals posing as legitimate merchants.

"A so-called merchant sets up a store operation that has little or no inventory or is at a nonexistent location," explains Robert J. Bienkowski, manager of a Chase Manhattan Bank program to crack credit card fraud. "The merchant signs up to accept VISA and MasterCard and, after claiming a lot of transactions, cashes in his slips, gets his money and bugs out within a month or two."

Thomas J. Kelleher, vice president of security and fraud control for MasterCard International, points out there is also the "passive" merchant "who will take an executive-type card from a scruffy kid who runs into the store out of breath and orders an $800 camera. He knows that kid doesn't own the card, but since he has called in for the required authorization and gotten it because the card has not yet been reported lost or stolen, he goes ahead and makes the sale."

Both VISA's and MasterCard's answer to counterfeiting has been to redesign their cards using fine-line printing, ultraviolet inks and holograms, which are highly visible three-dimensional images on a metallic surface that change hue as the cards are tilted.

For Dominion Bankshares security officer David Garrett (left), tracking down card crooks often means going store to store showing mug shots to personnel.

The two bank card issuers have also formed a joint venture company with Malco Plastics, a leading credit card manufacturer, to market electronic "Watermark" tape to approved card producers worldwide. The tape is used for the magnetic stripe on the back of a credit card. According to Malco President Larry Linden, "a permanent, unalterable code consisting of various arithmetic sequences is structured into the wet magnetic stripe material, protecting it against alteration."

Another antifraud tactic that some credit card companies are trying is use of carbonless sales slips.

Eliminating merchant fraud is high on VISA's and MasterCard's priority lists. Bank members like Dominion Bankshares in Virginia have adopted

Cardholders' names and numbers are verified at Malco Plastics, a card maker.

stringent merchant accreditation guidelines. "When Dominion accredits a merchant," explains David Garrett, bank security officer, "I visit the site to see if there's a permanent storefront and inventory. I make credit checks on the principals, see if there's a permanent relationship with the bank like a savings account, and ask for references."

MasterCard has instituted a new chargeback policy that may shake up the "passive" merchant. A merchant whose fraud volume exceeds 8 percent of his total sales volume in two successive months becomes responsible for all charges on lost or stolen cards.

Telemarketing, in which merchandise can be charged to a credit card number by phone, has its own set of problems.

Says Sgt. Russell Meltzer of the Los Angeles Police Department's bunco forgery division: "We've got telemarketing fraud cases running into the hundreds of thousands of dollars."

In one such scheme, he explains, "Crooks call up and say the party has won a prize but must reveal a credit card number. When the cardholder does, the crook uses that number to have the merchandise shipped to a temporary address and then skips town. The actual cardholder gets the bill."

THE DANGER OF fraud in mail-order transactions has resulted in creation of the Direct Marketing Guaranty Trust, which has 78 catalog companies as members. The service maintains a bad-risk file, offers credit card clearing services and notifies member companies when it is safe to ship merchandise that has been charged to a credit card.

Security provisions for credit cards are being tightened in other ways. VISA hopes to have 80 percent of its domestic credit card transactions automated by next year, using on-line terminals. Brigham says such terminals will enable a merchant to transmit personal identification numbers, known only to VISA and the cardholder, as well as the usual purchase information.

To cut down on the problem of diversion of mailed credit cards, banks are resorting to new procedures. Bank of America and other institutions are mailing cards in plain envelopes with wadding that makes it impossible to feel the cards. Banks are also doing more followup mailings to confirm that cards have been received.

Some credit card companies sustain lower losses than others. James McGrath, American Express vice president of security, explains: "Our card for years has had fine-line engraved printing, ultraviolet inking, fancy design, intricate numbering and a green color that is not a snap to duplicate. A new feature we've added is duplicating on the back the embossed number found on the card's front. Another reason is that our validation system is state-of-the-art, giving merchants instant access to the facts." He adds: "But you must consider that both VISA

and MasterCard have well over 100 million cardholders; we have around 17 million, meaning less chance of fraud."

Counterfeiting is not a major problem with individual retailers' cards, states Marian Rothman, a National Retail Merchants Association vice president, "because if you're going to make a card from scratch, you're not going to bother with a local card that you can only use in one store."

How visible are law enforcement agencies in tackling credit card fraud?

The U.S. Postal Service can step in when cards are mailed across state lines or national boundaries with the intent to defraud. The FBI can enter a credit card fraud case that involves interstate transportation of stolen property. The agency cannot touch a fraud case, however, unless it meets a certain dollar threshold. In parts of the country where fraud is not a great problem, it is $10,000. In areas where fraud is rampant, the minimum is $50,000.

THERE ARE, amazingly enough, no federal laws against counterfeiting or altering a card; possessing a card with unlawful intent; receiving, selling, buying, using or possessing factual or fictitious card account information with unlawful intent; giving, receiving, selling, buying or otherwise trading in equipment with the realization that it is to be used to counterfeit credit cards.

Several bills proposed in Congress would close these gaps. Some would give the U.S. Secret Service jurisdiction in this area, since the agency already handles currency counterfeiting.

The Los Angeles Police Department's Sgt. Meltzer, who is also current president of the International Association of Credit Card Investigators, says he is optimistic that the industry will achieve its goal of significant reduction in credit card fraud.

He sees major gains as security procedures become more and more electronic and verification procedures "are taken out of the hands of the individuals involved in the transaction."

His association, which is made up of representatives of credit card issuers and law enforcement agencies, also favors tightening both federal and state antifraud laws. These, he comments, never anticipated the credit card explosion and the criminal techniques developed to exploit it.

Another critical antifraud step, Meltzer adds, is beyond the reach of both technology and legislation: Holders of cards must keep track of them and make timely reports when they are lost or stolen.

"Credit cards are one of the major forces moving us toward a cashless society," he says, "and we're going to have to learn to accept the responsibilities that go with this change." □

How Stores Can Foil Crooks

Individual merchants are highly vulnerable to credit card fraud, but they can take steps to minimize that risk, experts advise.

Says Sgt. Russell Meltzer of the Los Angeles Police Department's bunco forgery division: "Many merchants have a lot of 18- and 19-year-old clerks accepting large transactions. And training is inadequate. Clerks will spend 20 hours learning how to run a cash register and write up a sales receipt. Less than 10 minutes is spent on security."

Meltzer exhorts merchants to train sales personnel to examine an entire transaction carefully, to ask for a driver's license and to check key points: Is that really the customer's picture on the license? Does the signature on the license match the signature on the invoice? Do the height, weight and eye color really match the individual's?

Larry Schwartz, president of the Fraud and Theft Information Bureau, gives merchants some tips on when to suspect a customer of being a credit card crook:

- The customer takes the card out of a pocket instead of a wallet or purse.
- The customer tries to rush the clerk.
- The credit card has expired.
- The back of the card is not signed.
- The customer makes an implausible purchase, such as buying 10 television sets that are all being sent to apartments in the same building.
- Be alert, Schwartz admonishes merchants. "The clerk must be trained for the survival of the retailer. He should ask for an automobile license and local charge card. A clerk can hold the license away from the customer and ask for the date of birth."

Check third-party send-tos carefully, Schwartz says. If there is the least doubt, don't release the merchandise until verification has been established. The clerk should take down the customer's phone number. If there is any uncertainty, the clerk should check the customer's address in the phone book. If it is not listed, the clerk should call the phone number. Merchants can also check by calling the place of employment.

Merchants should take time to make reasonably sure that employes they hire are honest. In Los Angeles, 70 retailers own a cooperative service, called Stores Protective Association, which conducts employe screening for them. Tried and true ways of ferreting out potentially dishonest employes include, of course, carefully checking backgrounds and previous places of employment. Periodic spot checks of clerks' transactions, having supervisors approve certain transactions and holding meetings from time to time at which bank personnel can brief employes on the latest credit card transaction trends and procedures are also helpful.

Card issuers are giving merchants financial incentives to be wary. Says Thomas Kelleher, Jr., vice president of security and fraud control for MasterCard International, "There are credit cards out there that have no magnetic stripe across the back. If it's not there, the card is counterfeit. The merchant should seize it and hang on to it, and he'll receive $50 from MasterCard."

Merchant examination of all transactions is one fraud stopguard, says Sgt. Russell Meltzer of the Los Angeles Police Department.

What Will You Do When the IRS Suddenly Wipes Out Your Corporation's Tax Shelter Benefits?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Banks, insurance companies and various state and federal agencies, besides the I.R.S., all require notarized authorizations to grant loans, buy property and equipment, enter into leases and even to sell assets. And other problems can be equally devastating. The reason? The owner didn't document important transactions. The small business owner simply has to "Get It In Writing".

Here are some recent "horror stories" direct from actual court cases.

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of \$27,111.60. He narrowly escaped a penalty of \$13,555.80.

B.W.C., Inc. was forced to pay \$106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings . . . keeping minutes . . . taking votes . . . adopting resolutions . . . isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate record keeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay \$100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important the forms are to you and your business. Lawyers know that the I.R.S. will insist that you have the corporate records to prove that you are entitled to all the tax breaks from having a corporation.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. It is truly **The Complete Book of Corporate Forms.** It was prepared by Ted Nicholas, author of the best-seller, *How To Form Your Own Corporation Without A Lawyer For Under \$50.* This book has become the largest single source of new corporations in America. His book has revolutionized the business of forming new corporations by making the process simple, easy and inexpensive.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help *after* they incorporated. They didn't know how to follow through, how to turn their corporation into the ultimate tax shelter.

And so, he prepared **The Complete Book of Corporate Forms.** Virtually all the forms you will ever need are all ready for you. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping good corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

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Amendments to By-Laws
Changes in Membership of Board

You will also receive all the stockholder and directors resolutions you will need to take any major business action, including:

• Negotiation of contracts • Authorizing loans to corporation • Approval of corporate loans to you • Designation of purchasing agent *(some suppliers may want to know who is authorized to buy from them)* • Setting your salary • Directors fees • Authorizing your expense account • Mergers • Sale of corporate assets • Dissolution • Bankruptcy • Declaring dividends • Appointment of attorney or accountant

Plus, you'll receive the forms needed to authorize any of these tax-saving fringe benefits:

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When You're In The Spotlight

PHOTO: ARTHUR GRACE—SYGMA

Facing an aggressive press corps at a news conference can be a chancy situation, with your company's image at stake.

How the Press Can Help Tell Your Firm's Story

Many business people cower when reporters come knocking. But experts say there's nothing to be afraid of—if you're ready.

THE PRESIDENT of a controversy-plagued corporation is arriving at the Washington office of Gray & Company for advice on press relations when a television crew ambushes him. He stammers, falters and grows angry under the attack.

Standing to one side, Robert Gray, head of the public relations firm, takes in the show with a knowing smile: He has set his own people, impersonating hostile reporters, on the client. The rest of the day will be spent showing the businessman how to protect himself in the clinches, how to see press encounters as opportunities and how to replace embarrassment with better credibility.

The media have been increasingly curious about business in recent years. Newspapers, magazines and television are devoting much more space to economic coverage.

Business people, say some of the nation's top public relations experts, must learn new skills as they adapt to greater media attention. The experts warn that the old adversarial relationship between business people and reporters can be dangerous to companies. Millions of dollars in image-building advertising can be undermined if a chief executive officer bungles a press conference or a television interview.

A major attitude change is necessary, says Gray, who urges his clients to view the media as a resource. Dealing with journalists can be a positive experience, he says, "if the business person looks at the press as one more means of communicating, if he looks at the opportunities—realizing there will be tradeoffs—and gets his point of view across."

Too often, a company attracts media attention only when something goes wrong that affects the general population: a product recall or an environmental hazard or a labor strike. Only then is it dramatically apparent that the firm must confront the press.

The experts counsel getting acquainted with the press long before any such crisis arises. "If the CEO is doing his job right in the first place, he has already developed a relationship with the press," says Paul Alvarez, chairman of Ketchum Public Relations in New York.

The CEO should invite area reporters to tour his facility, chat with them over lunch perhaps and acquaint them with the company's activities, its employes and its plans that could affect the community. Often, advises Alvarez, executives can make acquaintances in the media through community service and involvement in newsworthy projects.

Then, he says, if something goes wrong, company leaders are at least familiar with the reporters likely to cover the company's problems.

A company's executives invariably are able to see problems coming long before they are noticed by government agencies or the press. Too frequently, says Alvarez, executives nurture "a secret hope that they can work out a solution that will keep it quiet." But, he continues, the initiative is always with the party making an announcement, so if word of a problem comes from a government agency or an investigative reporter, "you are already backpedaling."

The worst thing a company can do then is stonewall, the experts agree. "'No comment' kills you," says Alvarez. "You'll never get as good a chance to tell your side of the story as right then. Be prepared to tell the whole truth from start to finish."

After a problem is revealed, and before company representatives respond to it, much hangs in the balance. It is still not too late to maintain the firm's image as a good corporate citizen.

Carole Jennings, a senior vice president at the public relations firm of Hill & Knowlton, offers these rules for a company's response: be prepared, make your main point first and be up to date on related topics.

ALVAREZ AGREES: "We counsel our clients that almost all questions can be anticipated. You can prepare yourself to answer questions forthrightly. For TV, less is more. Structure your comments in 15 words or less, crisp and quotable."

He explains that in the debate over nuclear power, foes of nuclear plants declare simply that nuclear power is bad. "Then, the nuclear power plant people want to give you 37 reasons why nuclear power is good for you. What

Executives have to be totally candid and keep their cool—or "the press will sweep up the pieces," says Robert Gray, a Washington public relations expert.

they really need is to match the effect of the antinuke people."

Often a company will call a press conference to answer questions from many reporters. That is efficient, say the professionals, but it also has pitfalls.

To avoid them, company representatives "should be totally candid," says Gray. "Ultimately, they are going to have to face up to their culpability, if they are culpable. A hostile press will find the vulnerability. If the company representative says steps will be taken to make corrective changes, he builds credibility.

"If the questions are hostile, and the executive thinks the reporter is rude, sometimes he will match his rudeness. If he loses his temper, the press will sweep up the pieces. The last thing he wants is a photograph of himself screaming at the press. He should be in control, in charge, cool."

Most encounters between business people and the press are not so perilous, yet even they can be well or badly handled by the executive. In particular, the wariness many business people feel toward the press can make for an awkward interview, say Jennings and Alvarez. "People have trouble looking at an interviewer," Jennings says. "You must remember that you are having a conversation. Acknowledge introductions and greetings from the interviewer in kind. If he addresses you as 'Mister,' then address him as 'Mister.' "

She adds: "Don't be overly friendly when the interviewer is serious. It makes you look frivolous. Don't use buzzwords or insider language. People won't understand you. We have to remind our clients of that all the time. Be brief. Don't fall into the trap of giving more information than needed."

Television interviews, the professionals say, are the toughest. "You may think you'll have 15 minutes to tell your story, and the interview is over after 3 minutes, " says Alvarez.

The interviewee "must be aggressive in an interview," he counsels. "Don't get into a wrestling match, but don't let the interviewer totally run the show."

The press, says Gray, "has an objective in the interview. That doesn't mean the person interviewed doesn't have a certain objective, too." Alvarez coaches his clients in the use of "conversation turners"—ways to keep an interview pointed toward the client's objective.

IT IS IMPORTANT, says Jennings, for business people to "try and look at themselves as the world looks at them." The more scientific public relations firms use videotape to give their clients a better understanding of how the world sees them.

"People can't believe that's the way they come across," notes Gray. "Even an eloquent speaker will see he is dropping his eyes to his script at the end of each point."

These independent public relations experts concede that larger companies often have effective public relations staffs, but they say that many companies do not assign enough importance to relations with the public and press.

"Too often public relations departments [within companies] work backwards," says Gray. "They take someone who is good at managing or bookkeeping and tell them to handle press. Too seldom do they hire someone with a press background."

In-house press advisers should, the experts say, be advocates for their companies, but they should also emphasize accessibility to the media. The reporter covering a company is going to describe what he sees to thousands of people who can affect the company's success.

Besides, says Gray, today's reporters are far better educated than those in the past and better able to understand an industry. Business is covered today "by writers who could run brokerage houses or plants," he says.

Businesses seek the advice of public relations firms when they need objectivity—a fresh look at their press program. They also hire them for such special services as videotaping and speech-coaching.

The bottom line is communication. People want more information about business, and the press is responding. The public relations industry is growing to meet business' need to get its message across. The end product promises to be, the experts say, a higher grade of information for the customer, employe and stockholder. □

—Henry Eason

To order reprints of this article, see page 73.

President Reagan and Peter Hannaford work on a speech. The President is prepared, even for his "impromptu" remarks.

PHOTO: ROGER SANDLER

Why Off the Cuff Is Off the Mark

Many speeches put audiences to sleep, but you can wake them up instead. Preparation makes all the difference.

By Peter Hannaford

CLICHÉS LAP about your ears. The speaker's tone is flat. His message is muddy. After 30 minutes, you feel numb. This describes the audience reaction to a large number of the speeches given by business executives on any day of the year throughout the nation.

Why does this happen? The greatest single reason: too little preparation. Some executives with a speech commitment will be "too busy" or too preoccupied with "more important" matters to assign all but last-minute time to preparation. Others may disdain obligatory corporate speaking engagements as routine drudgery. Or they may be fearful of turning in a bad performance, so they choose a dull, low-key recitation rather than risk an effort to inspire their audience.

If the speaker has not thought out what he or she wants to accomplish with the speech (the objective) and has not developed a line of reasoning (the strategy) for reaching the objective, the speech is doomed to failure before it is given.

Unfortunately, the price of a poor speech, especially if it is delivered to one of the speaker's constituencies—employes, shareholders, customers—is an audience left thinking that management cannot communicate effectively.

Sometimes a speaker deludes himself into believing that, because he knows the subject well, he can "wing it" with an off-the-cuff speech. Mark Twain once said, "It takes three weeks to prepare a good ad-lib speech."

President Reagan might add that it can take years. I have been with him countless times when he had to give impromptu remarks to an audience. Those remarks were not composed out of thin air. In most cases he was relying on his excellent memory for anecdotes, well-turned phrases and examples to illustrate his points. His remarks thus had a pace and conviction that brought immediate and positive audience response.

By contrast, recently I went to a luncheon meeting of a well-known civic forum in a major city to hear a senior government official talk about his assignment. Instead of speaking for 20 minutes—a good length—and taking questions for 10, he spoke for 40 minutes and took questions for 20.

The audience squirmed as he pulled cards from a stack, more or less at random, and commented on this or that aspect of his organization's program. The speech was disconnected; the objective unclear. He had not organized or rehearsed it.

I left not knowing what message the official wanted to convey. It was an opportunity wasted.

Not everyone is a gifted phrasemaker or platform orator, but if a speaking date is important enough to accept, the speech is important enough to be properly prepared. Any executive can deliver a clear, effective message from the podium if he or she spends the necessary time to organize and rehearse.

Whether you write your own speeches or use a staff or free-lance speechwriter, you can avoid the problems described. Here is a seven-point checklist I have found consistently useful:

PETER HANNAFORD, *chairman of a national public relations firm, was a senior assistant to Ronald Reagan when he was governor of California and a communications adviser during the Reagan 1976 and 1980 presidential campaigns. Hannaford is the author of* The Reagans: A Political Portrait, *published by Coward, McCann.*

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• Identify the subject. What is it you want to talk about?

• Focus on the objective of the speech. What basic message do you want the audience to remember?

• Get the audience's attention. Start your speech with something pertinent to the subject and vivid (it does not always have to be a joke).

• Show the need for whatever action you are going to propose or announce. In other words, set up the problem, using examples.

• Describe that action—such as a new company policy or a desirable change in a particular public policy or the introduction of a new product line—and why it will benefit your audience.

• Supply evidence to support the action—statistics, examples of the success of similar actions, your vision of expected results.

• Ask for support from the audience. In your conclusion, let them know there is something they can do.

While lack of preparation time—in both crafting the speech and rehearsing it—is the greatest cause of dull, ineffective speechmaking, failure to write for the ear instead of the eye ranks a strong second. Most business people do not speak from the podium as they do in everyday life. As a result, they are stiff and wooden on the platform. The remedy: use everyday words that come naturally.

THIS IS ANOTHER of Ronald Reagan's communications secrets. He long ago learned to write for the ear, not the eye. After years in radio, then in films (which require a well-developed memory) and then in television, his platform speaking was automatically tailored to a listening audience.

Today, even though he has a team of speechwriters in the White House, he works over the drafts (as he has for years), reshaping phrases so they sound more natural to the ear. He is in a minority.

Most business executives and politicians who have a hand in writing their own speeches treat them as essays. Many of their professional writers do the same, since they have usually come from research or print media backgrounds.

Yet, the podium does not require a stentorian approach to communication—far from it. Two centuries ago, Charles James Fox, an English orator, put this in perspective when he said, "A speech is not an essay standing on its hind legs."

Sometimes a speaker will deliberately write for the eye if it is more important that the speech get "on the record" for quotation rather than inspire the audience to which it is delivered. Usually, however, your first priority is to persuade the audience. Some of the best speeches do not have nearly the impact when read that they did when the tears or cheers welled up at the time they were delivered.

Still, there is no rule that says you cannot write a speech that both sounds good and reads well.

When writing for the ear, think of the sound patterns the speech will make. Be concise. If you can say it in 10 words, why take 25?

Remember that people do not usually speak in sentences and paragraphs, so don't worry about making every word fit the rules of grammar. Pauses, fragments, run-ons—all are part of our daily speech patterns and can be effective at the podium, provided they are used in a clear, purposeful manner.

WHILE consciously writing for the ear, you should avoid one of the worst elements of daily conversational speech: the cliché. Anytime you find yourself lapsing into phrases of the shoulder-to-the-wheel or eye-on-the-ball or nose-to-the-grindstone kind, you need either a stiff drink or a good night's sleep.

Clichés are substitutes for thought—they are the Muzak of speech. Worse, when you hear a speaker sprinkling clichés into his remarks, you know that badly mixed metaphors are not far behind. These make the speaker appear ridiculous, and they render the speech far less effective.

Toss out excess adjectives and adverbs along with clichés and shopworn metaphors. Colorful words that modify nouns and verbs and make them more vivid are fine, but most adjectives and adverbs dilute rather than sharpen the impact you want to make.

Once you or your writer has crafted a jewel of a speech, do not stick it in your pocket and expect to deliver it flawlessly without any practice.

If speaking is new to you, practice before a videotape camera so that you can critique your delivery and improve upon it. (Your writer or public relations director might be a good audience.) Even if you are a frequent speaker, you should always go through a new speech at least twice in rehearsal. Do it before a mirror, a friend or your spouse, or into thin air.

First, to get the right "feel" for its tone and cadence, make corrections to the text as you rehearse. Then go through the revised speech at least one more time.

Once at the lectern, you cannot escape. Everyone is waiting, looking at you. At that point, it is up to you to move things along. Many first-time speakers have a great urge to bolt and run. It helps to remember that even a frequent business speaker may be nervous for the first few moments on the platform.

IF THE EXPERIENCE is new for you, you can learn to relieve your anxiety by thinking of the audience as a group of individuals. Single out one person. Look him or her straight in the eye and talk right to that person for a few moments. Do it with another, then another.

Some of these individuals with whom you make eye contact will begin to nod at what you say. When they do, you will know you have connected. Your message is getting through. Your self-confidence will increase accordingly.

Some speakers hang on to the lectern as though it were a lifeboat from the *Titanic*. This is another sign of nervousness, and it distracts from the speech itself.

Rest your hand on the lectern or even grip it now and then for emphasis, but don't hang on to it for dear life. If you do, you will come across as nervous and dogmatic.

One way to avoid excessive lectern grip is to use your hands—not as a windmill, but for emphasis and change of pace.

For example, if you are going to underscore a point with, say, three examples, hold up three fingers when you mention this. Or, outstretched arms can indicate some broad subject. Two fingers held parallel to the floor and out in front of you can stand for a small quantity of something. The list of possibilities for useful gestures is nearly limitless.

For most speakers, frequent speaking makes for greater comfort and relaxation behind the lectern. NBC's Edwin Newman put it this way, "The only difference between the professionals and the novices is that the professionals have trained the butterflies to fly in formation." □

If a speaking date is important enough to accept, the speech is important enough to be properly prepared.

To order reprints of this article, see page 73.

Ads: Subtracting Some Restrictions

By Bob Gatty

BACK IN THE early 1960s, a hair dye manufacturer came up with a new product—a dye that would not wash out. When the company advertised the dye as "permanent," the Federal Trade Commission ordered the ads off the air. Why? The FTC concluded that consumers' hair, as it grew in, would not be the same color as the dyed hair, thus making the ads deceptive.

Last October, the FTC adopted a new standard for deception, based on "reasonableness." Under the standard, says Chairman James C. Miller, the dye ads would not be held deceptive. Why? Miller says it is "wrong-headed" to expect dye to work on hair that has not yet grown in.

Miller and the two other Reagan appointees on the FTC say the new standard provides clear guidance for advertisers while ensuring that consumers are not denied information that would help them make intelligent decisions.

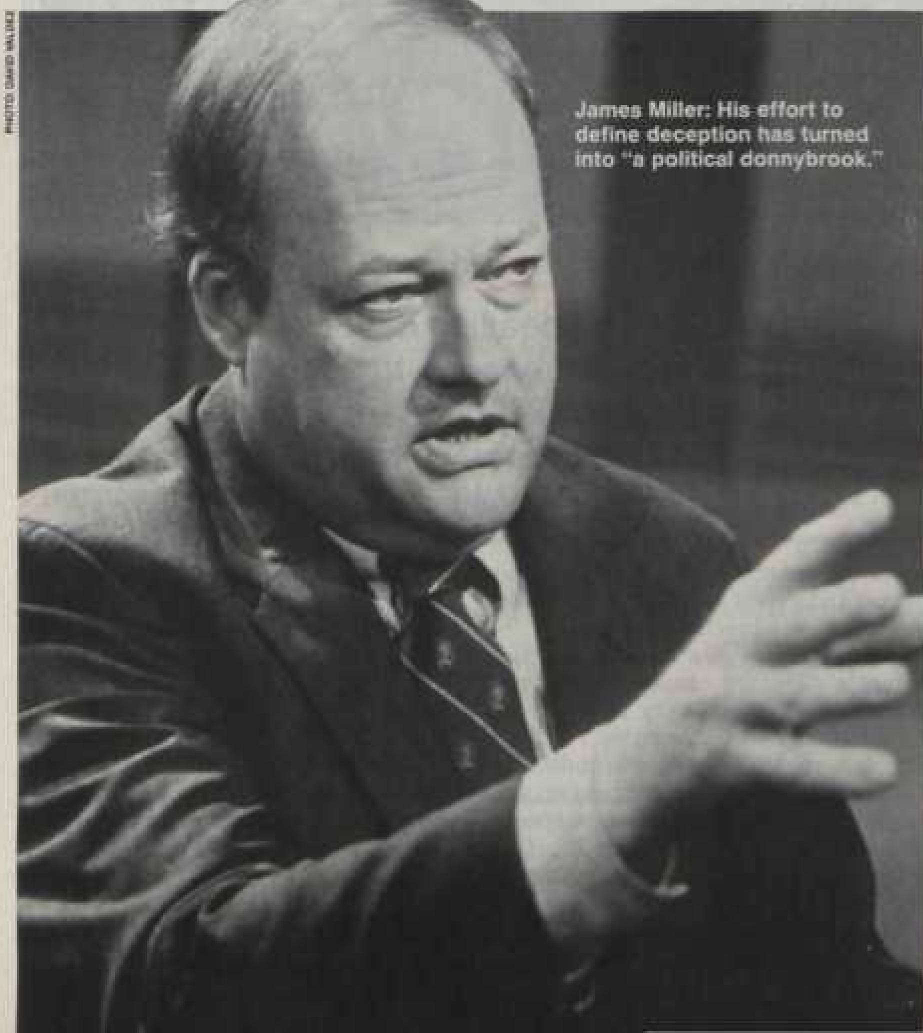
In the past, this FTC majority says, deception has never been defined except by case law. "And that," says Miller, "has been terribly inconsistent. It has been all over the place."

Miller is making other efforts to improve the regulatory climate for advertisers.

He has proposed to his fellow commissioners a significant modification of rules governing substantiation of advertising claims. If the rules are adopted, advertisers will have more leeway in promoting their products.

And Miller, teaming up with the business community, has succeeded in persuading key congressional committees to include a definition of unfairness in legislation authorizing the continuation of the FTC. The definition, if enacted, will reduce the risk of FTC charges that ads are unfair.

PHOTO: DAVID VALDEZ



James Miller: His effort to define deception has turned into "a political donnybrook."

Other important developments involving advertising also are under way.

- A coalition of organizations led by the Center for Science in the Public Interest has petitioned the FTC to greatly restrict alcoholic beverage advertising. The petition is being reviewed by FTC staff members.
- The FTC is considering staff recommendations that ads for antacids be required to contain warnings, of the type now on the products' containers, that the products could have harmful side effects when consumed in certain circumstances.
- The Federal Communications Commission is considering a petition by a consumer group, Action for Children's Television, that would require that all TV ads "directed to children" include an inaudible electronic signal at the beginning and end, so that ads can automatically be erased on videocassette recorders with a special attachment.
- The Food and Drug Administration is examining rules on prescription drug advertising requiring inclusion of a statement of possible side effects. Advertisers say the present requirements are cumbersome and discourage such advertising.
- Numerous state legislatures are seeking to levy sales taxes on advertising.

CONTROVERSY over FTC actions against deceptive advertising began early in 1982, when Chairman Miller proposed a definition of deception to be written into law. His efforts were rejected in Congress.

His opponents, who included FTC Commissioners Michael Pertschuk and Patricia P. Bailey—not to mention Rep. John Dingell (D-Mich.), chairman of the House Energy and Commerce Committee—argued that Miller's definition of deception would hamper consumer protection.

Finally, at Miller's urging, the FTC acted on its own, adopting the new deception standard in a 3-2 vote. The standard's three criteria were identical to those in Miller's legislative proposal.

First, there must be a claim or omission that would mislead consumers. Second, the ad must be examined from the perspective "of a consumer acting reasonably in the circumstances." Third, any infraction must be a "material" one.

The most controversial component of the standard is the requirement that the act or practice involved be considered from the perspective of the reasonable consumer.

"A company is not liable for every interpretation or action by a consum-

er," the FTC majority said. It quoted from a 1963 FTC decision that stated: "An advertiser cannot be charged with liability with respect to every conceivable misconception, however outlandish, to which his representations might be subject among the foolish or feeble-minded."

BAILEY AND PERTSCHUK say, however, that before enactment of the new standard the FTC actually took the position that "an act or practice is deceptive if it has the tendency or capacity to mislead a substantial number of consumers in a material way."

Says Miller: "This has turned into a real political donnybrook."

Howard Beales, associate director for policy and evaluation in the FTC's Bureau of Consumer Protection, concedes that the standard might make things a bit easier for advertisers, but only "in cases where the commission has pushed the edges of what it can do."

Miller's standard will continue to be enforced until a future commission makes a change, if it does, or until Congress writes a deception definition into law. Congress is not expected to do so this year.

It may, however, take action on the related issue of unfairness.

In 1980 Congress banned use of a broad unfairness rule for advertising, permitting the FTC to cite unfairness in individual cases only. The action was prompted in large measure by a proposal—never approved—to ban much of children's advertising on the basis that it was "inherently unfair."

Since then the ban, like the FTC's authority to continue in operation, has been extended through continuing resolutions, with Congress unable to agree on authorization legislation.

Daniel Jaffe, a senior vice president at the American Advertising Federation, is hopeful that Congress will define unfairness in the FTC authorization bill this year—and he prefers a Senate-passed version of the measure.

Under that legislation, a practice would be unfair if it caused or was likely to cause substantial injury to consumers that "is not reasonably avoidable by consumers and is not outweighed by countervailing benefits to consumers or to competition."

The Senate's bill prohibits using this definition for a broad industry-wide rule, although, as in a House-passed bill, the definition could be used as a basis for prosecuting individual companies.

"Our view is that whatever group is in power should have very clear guidelines," says Jaffe. "You can't depend on particular political lineups to assure fair treatment."

The U.S. Chamber of Commerce is also urging Congress to approve the Senate measure. "We have a rare opportunity to enact long-sought reforms codifying the FTC's authority—reforms that are needed to promote fairness in the commission," says Richard L. Breault, group vice president for policy at the Chamber. "It is vital that these reforms be enacted in this Congress."

Meanwhile, the American Advertising Federation, which represents advertisers, ad agencies, media and 25,000 members affiliated with advertising clubs, backs Miller's efforts to change FTC policy on substantiation of claims in advertisements.

Miller has recommended approval of a policy in which some substantiation information may be developed after a claim has been made; the requirement now is that it be available beforehand.

He says the present requirement, though "unambiguous," has often been violated, with the FTC considering material developed after advertising has appeared. This, he says, has led to confusion and has unfairly saddled some small ad agencies and unsavvy advertisers with work they did not really have to do.

The new policy would reaffirm the principle of prior substantiation while specifying types of circumstances in which the FTC would consider evidence submitted after the fact, Miller says.

He has also recommended ending the occasional FTC practice of requiring an entire industry to submit substantiation of all claims about a type of product.

Jaffe, who says that "an honest marketplace is essential," adds: "We think it is deceptive to make a claim about a product and not have adequate backup." But he says the industry believes changes are needed.

He also notes that the advertising industry has a self-regulatory program and that competitors and consumers may sue in court if they feel they have been damaged by false advertising.

THOUGH ADVERTISING industry officials favor the proposed substantiation rule changes, they oppose two other proposals before the FTC—the alcohol advertising petition, which calls for either a ban on some ads or widespread broadcasting of health information and warnings, and the antacids proposal, which though proposed by some FTC staff members is opposed by others.

"Advertisers feel that making ads the primary source for information on a product is counterproductive," says Jaffe. "There is very limited space in print ads, and with radio and TV, there is very limited time."

Jaffe says the industry also opposes the proposal to make it possible electronically for parents to delete from videocassettes ads that are aimed at kids. "If the ad is truthful and nondeceptive, it should be allowed," he contends.

The industry is, in addition, lobbying against efforts—so far unsuccessful—in state legislatures to levy taxes on various parts of the advertising process, including the costs of space or time and of photos, artwork or copy. In Tennessee, for example, the industry succeeded in defeating a proposal to slap a 6¾ percent value-added type of tax on advertising, imposing the levy on each step of the advertising process.

"Advertising produces sales, which produce taxes," says Jaffe. "This kind of tax kills the goose that laid the golden egg." □

Ad industry official Daniel Jaffe opposes an FTC antacids proposal.

PHOTO: T. MICHAEL KEZA

Let's Not Lower The Boom on the Economy

The recovery shows every sign of long life, but bad decisions in Washington could kill it.

By Peter A. Holmes

PHOTO: DAVID [illegible]

OPTIMISTS about the economy have plenty of ammunition these days. In the sixth consecutive quarter of expansion, the economy has entered the second phase of the customary business cycle: a period of strong pickup in business investment as the previously quick pace of consumer spending moderates.

Inventories remain lean, a healthy sign that output is not growing much faster than demand. Employment levels are setting new records monthly, and the unemployment rate has fallen faster than in any previous recovery since World War II.

Personal income is rising. Fluctuations in short-term interest rates mirror normal changes in the level of business borrowing. Recovery-generated revenues are helping to trim the budget deficit, even before Congress acts on this issue.

Inflation is relatively low, despite some economists' fears that pressures already at work will begin forcing prices up later this year. Even the most pessimistic analysts see no prospect of rates anywhere near the double-digit figures that created havoc in the economy in the late 1970s and early 1980s.

Most indicators point to a continuation of the recovery beyond the foreseeable future, as momentum builds with each passing quarter.

"The only threats to the recovery," says Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce, "come from possible decisions made in Washington, not those made in Peoria or Detroit."

He says that if Congress abruptly increases tax rates or the Federal Reserve System's monetary policies fail, the expansion could be prematurely choked off.

Credit markets are watching closely for evidence that Federal Reserve Board Chairman Paul Volcker is either slowing or accelerating the tempo of the recovery. These markets set the price of money borrowed by consumers to purchase houses, cars and other big-ticket items and by businesses to replenish inventories or to finance construction of new plants and the equipment to put in them.

Business, meanwhile, is keeping a close watch on Capitol Hill for indications that Congress, in its zeal for reducing budget deficits (as opposed to reducing excessive federal spending) may strike at the heart of the tax policies that are responsible for the surge in business investment and consumer spending.

The U.S. Chamber is supporting, with conditions, a compromise reached by President Reagan and Republican congressional leaders—one aimed at cutting $150 billion from projected federal budget deficits over the next three years.

The plan sets a $50 billion ceiling on new tax levies and concurs with the President's efforts at compromise in the area of defense cuts.

"As for domestic spending cuts," says Richard Breault, the Chamber's group vice president in charge of policy, "we want real cuts enacted into law, above and beyond any speculative savings in interest costs."

Breault calls the revenue package the quid pro quo needed to get liberals' acquiescence in trimming domestic spending increases. "We would prefer not to have any tax increases at this time," he says.

While placing a ceiling on the amount of new tax levies it will accept, the Chamber remains free to encourage Congress to modify those portions of the tax bill that it feels would unduly penalize business and consumers.

A further condition of the Chamber's support for the "down payment" plan to cut deficit spending is that no change be made in indexing of personal income tax brackets for inflation, scheduled to take effect next January, or in last July's 10 percent cut in tax rates.

These provisions, as well as two earlier tax rate cuts and an overall reduction in business taxes, have reversed a generation-long trend of rising tax burdens on individuals, and they have greatly improved incentives for business to invest in new equipment. Such investments increase productivity. Over the long run, that is the only way real wages and salaries can grow.

Tampering with investment tax credits, schedules for depreciating income-producing assets and other incentives to invest might bring in more revenues this year but would have a devastating effect on business, says Norman Ture, president of the Institute for Research Into the Economics of Taxation.

Raising businesses' tax burden will force business to borrow more instead

PHOTO: KEN TOUCHTON

Presidential adviser William Poole sees risk to the recovery in Federal Reserve actions and in proposed tax increases. Incentives to invest in new machinery could be threatened if Congress tampers with earlier tax reductions.

of using internally generated funds. This will increase the demand for credit and thus raise interest rates, says Ture, an architect of the Reagan administration's tax policies.

William Poole, the monetary policy expert on President Reagan's Council of Economic Advisers, takes issue with the popular idea that lower interest rates will necessarily lead to more investment. He argues that interest rates are high because of the high after-tax rate of return on investment. "Business tax incentives have had the effect of bidding up interest rates," Poole says. "Reverse the process, pull down the rate of return on investment, and this will lower interest rates. But it will bring about a reduction in investment, not an increase."

The combination of tax incentives and lower inflation—the thrust of Reagan economic policies—has raised the value of asset depreciation. "The biggest concern we have is to what extent will higher taxes reduce investment," says Mike Fleming, executive director of the American Association of Equipment Lessors, a trade group whose 800 members financed $61 billion worth of equipment last year.

Concern is growing that the Federal Reserve Board, in fixing interest rates, will repeat past mistakes by under- or overstimulating the economy. "The Fed is operating the functional equivalent of the 1970s policy mode—by targeting the federal funds rate [overnight loans between banks] for short periods of time," warns Poole.

Over the last decade, wide swings in the growth of money helped cause four recessions and the worst bout of inflation in memory. In October, 1979, new operating policies at the Fed brought a semblance of stability to monetary policy.

Since the summer of 1982, however, when the level of bank reserves became a key variable, the Fed has run the risk of presiding over a procyclical monetary policy: one that overstimulates the growth and contractions of the money supply.

The current operating procedures at the trading desk of the New York Fed smooth normal interest rate fluctuations. Among the consequences: The economy's signals to the credit markets become fuzzier, leading to greater uncertainty, which tends in turn to raise interest rates.

And it is harder for the Fed to know when to add reserves to the banking system and when to take them away. It is the availability of reserves that enables banks to create credit, make loans and influence the level of business activity.

Fed watchers argue that the central bank must choose between controlling either the quantity or the price of reserves. "What the Fed has been doing is fixing interest rates and letting the quantity go up," says Poole.

The danger with this policy is that if the Fed puts reserves into the system when it should be taking them out, the economy will grow at an unsustainable rate and this will lead eventually to higher inflation, says Robert Christian, chief economist at Philadelphia's Provident National Bank. On the other hand, he says, inadequacy in the quantity of bank reserves could lead to a premature slowdown in business activity.

Poole says that the risks to the economy would be less if the Fed stopped trying to iron out short-term interest rate changes. "Let the interest rates fluctuate to make sure that policy doesn't become procyclical and find itself feeding money into a strong economy," he urges.

Says David Littmann, vice president and senior economist of Manufacturers National Bank of Detroit: "Over the past two years the Fed has been too expansive in monetary policy to lower the inflation rate from current levels." With the money supply growing at a near 8 percent annual clip, Littmann advises the Fed to take reserves out of the system (by selling government securities) and reduce money growth to a 4 percent rate.

Another suggestion—to watch price changes in a market basket of sensitive commodities, for use as a target in guiding the Fed's purchases and sales of government securities—has been made by the Chamber's Rahn and its deputy chief economist, Ronald Utt.

"Pegging interest rates is not a sustainable policy," says Rahn. "In the absence of a policy rule [to guide the Fed], there is no way for markets to anticipate what will happen next."

THIS UNCERTAINTY has caused interest rates to be anywhere from one half of 1 percent to 2 percent higher than they otherwise would be, say many economists.

Under his suggestion, says Rahn, "moderate changes in money growth would be made on the basis of a price index signal." He believes the signal would provide instructions to guide the Fed in pursuing countercyclical monetary policies—policies that would flatten out the peaks and valleys that chronicle changes in output.

Otherwise, "left to its own judgment," Rahn says, "the Fed will persist in the roller-coaster policies of ease and restraint, and the U.S. and world economies will suffer accordingly."

For the time being at least, the Fed has kept money growth within its target range. If the Fed gains the confidence of credit markets in an election year, it will signal that the failed stop-start monetary policies of the past will not be repeated.

Whether the economy continues to perform well through the year will be influenced by how mindful Congress is that excessive spending, not low taxes, poses the greatest risk to the expansion. □

PHOTO: TOM ROST

Sign of economic development success: Construction that heralds more jobs.

What It Takes Now To Lure Businesses to Your Area

A rapidly changing economy is altering recruiting techniques.

By Mike Lewis

AS THE AMERICAN economy has changed dramatically in the past few years, the art of attracting businesses to communities, states and regions has had to change, too.

Existing companies' loss of turf to new high technology firms and stronger foreign competition, with consequent decreases in employment, have spurred efforts to bring in companies located elsewhere, with consequent increases in employment.

The economic development field now emphasizes teamwork among private groups, government agencies and public utilities, with an increasing number of umbrella organizations seeking to coordinate efforts.

A survey of area developers around the country identifies four other ways in which recruitment of businesses has changed:

• There is much greater emphasis on keeping and expanding businesses already situated in an area. "Retention" has joined "recruitment" as frost belt and other communities have learned that they need to work to protect their current job bases—and that a testimonial from the manager of a local company is one of the best tools for attracting outside companies.

Says Norton Berman, director of the Rhode Island Department of Economic Development: "Business retention is beginning to replace 'beggar thy neighbor' raids on other states."

• Small businesses, representing a sector of the economy that is growing in jobs, are increasingly the targets of business recruiters.

• New tools, such as community

loans, government grants and industrial revenue bonds, are being used to bolster traditional commercial borrowing to meet capital needs.

• More attention is given to international trade and the chance to attract foreign firms as increasing numbers of Japanese and European companies locate facilities in the United States.

The growing recognition of the need to cooperate with high technology companies has led a number of states to accelerate their efforts in applied research.

These programs typically involve a state's private and public universities with private business.

Ohio, for instance, plans to spend \$2.5 million to \$4 million for each of several research and development centers, with businesses and other groups matching Ohio's contribution. The stated goal of the program is economic development and growth, rather than academic breakthroughs for their own sake.

A governor's commission in New Jersey recently recommended a similar system in that state, with an \$80 million bond issue to support four advanced technology centers that would involve the state government, New Jersey's universities and private companies in a cooperative effort.

Many of these programs, including the one in New Jersey, also seek to address another necessity for attracting high tech firms: providing a large pool of skilled workers. State after state has increased its financial commitment to technical training in secondary schools, colleges and special institutes, with economic development the chief goal.

INDUSTRY RECRUITERS express near unanimity when asked to list, in order of priority, the major reasons a company decides to move to a particular location:

1. Availability and productivity of labor. Technically qualified workers are a must.

2. Quality of life. Some of the smaller communities that have recruited successfully in recent years offer a number of cultural activities, such as symphony orchestras and opera companies.

3. Market location. Nothing attracts business like the chance to do business.

A pool of skilled workers is vital to a community that wants to lure high-growth electronics companies.

4. Community receptivity. Officials of Acurex, a Silicon Valley firm that recently opened a facility in Huntsville, Ala., still cannot believe that the governor of Alabama wanted to speak to them via a teleconference.

These factors are much in the minds of more than 10,000 economic developers in the country who spend about \$300 million a year to attract companies and their jobs.

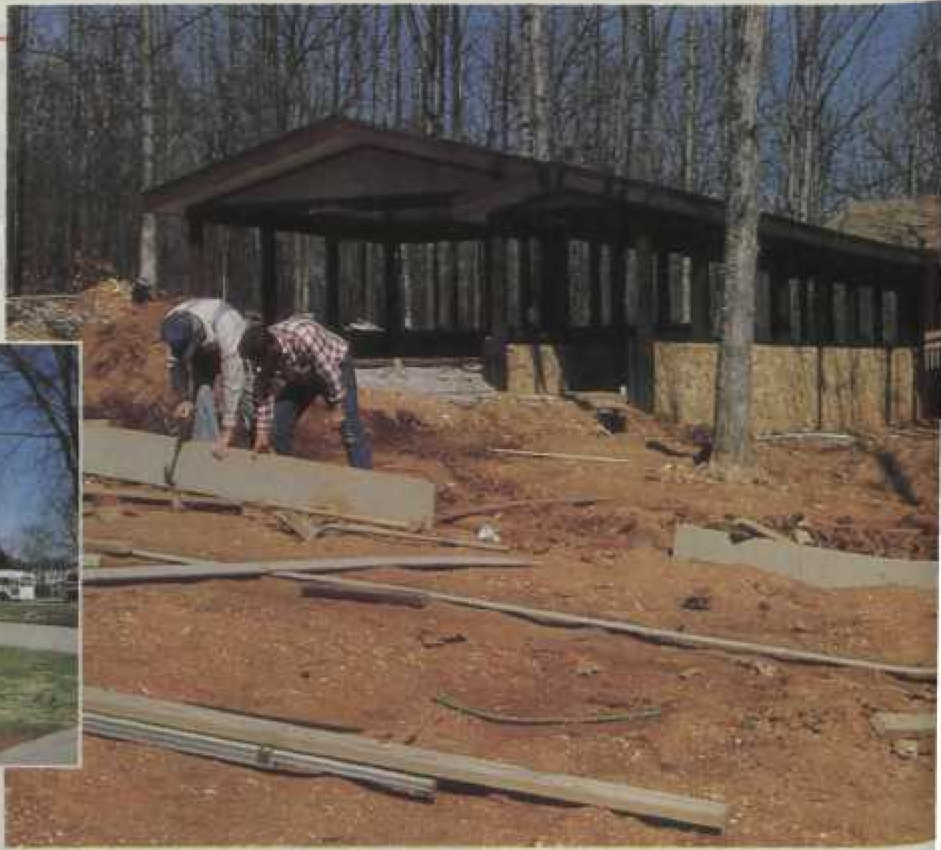
The stakes are large. A new plant with 100 workers can add more than \$1 million a year in personal income and lead to the creation of nearly 70 nonmanufacturing jobs.

Ted M. Levine, president of New York-based Development Counsellors International, has devised 10 rules for communities that want to attract new businesses:

• Keep in mind that "the competition is supertough and getting tougher." Levine says there are about 11 competitors for each major expansion or relocation.

• "Targeting is a good way to fight the competition. Sell to site selectors what's different and better about your community; set it apart from the others."

• "Don't limit your quest to manufacturing." Only one in five U.S. jobs is



High tech firms provide a market for houses, benefiting local builders and helping make the area attractive for further development.

PHOTO: TOM ROST

The Huntsville, Ala., area uses Southern hospitality as a tool in recruiting companies on the move.

The Urge To Move

The process that companies follow in deciding whether to move and in selecting a spot for the expansion or relocation is seldom scientific.

Steve Moss, a relocation expert for Arthur D. Little, the consultant firm based in Cambridge, Mass., works with many clients who get the corporate version of itchy feet.

Most companies, he says, move because of certain conditions:

There is no room for expansion at their present location or there is room for expansion but the image of the area or the cost of expansion there or the economic future of the area seems unfavorable. Perhaps the present location has become untenable because of operating costs, the quality of the work force or inability to recruit skilled professionals to the area, or the location may appear acceptable but competitors are all moving to another site, suggesting possible benefits in joining the new cluster.

"Those are the kinds of things that trigger the process," Moss says. "It's either intuitive or somehow incident-inspired."

Most companies that make use of consultants like Arthur D. Little insist on anonymity, at least partly because they want their new communities to focus their gratitude on them rather than on some outside specialist.

PHOTO: ARTHUR D. LITTLE

Steve Moss helps in relocations.

The degree of assistance a consultant offers varies widely according to the company's need. Moss says he does some comparison studies when a company has picked a few potential sites for a move and wants hard information and perhaps appointments with key people in the communities.

"Red flag" studies of perhaps five metropolitan areas are designed to determine whether anything is wrong with a particular area. This method of eliminating competitors is often carried out through field studies without identifying the specific company.

Moss sometimes makes field analyses of a few characteristics. And sometimes he helps a company frame the issues in considering a location. Japanese firms, for instance, often have a consultant question Japanese businesses already in an area about why they picked it.

Acknowledging that there is a nearly universal search for small high technology companies, Moss says such firms must have sites that can offer venture capital and that are attractive to high technology people.

Like nearly everyone in economic development, Moss discounts the notion that there is any valid list of the 10 or 100 best sites for industrial relocation. The specific needs of individual companies are radically different, Moss says. "For one company Pittsburgh can be better than Austin; for another it can be the opposite."

Moss cautions that companies are often shortsighted in picking a new location, looking at today's issues rather than at what will be important in the future. And he points out that if a lot of companies are moving to a relatively small area at the same time, the labor pool is going to be used up and taxes will be increasing to meet infrastructure needs.

A wise company official must take every factor into account before calling for a moving van.

PHOTO: TOM POST

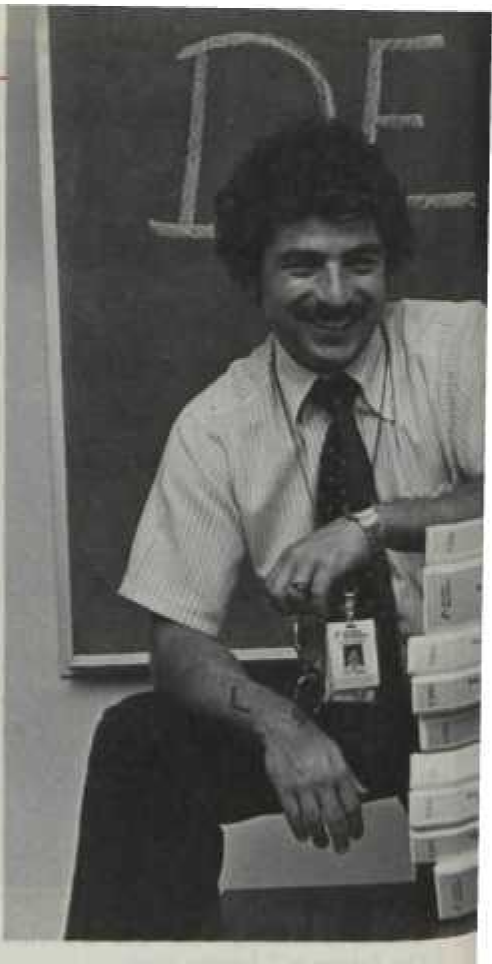
in manufacturing. "Services are where the future is," Levine says.

- "Avoid the Silicon Valley syndrome." There are many more jobs in companies applying new technology to traditional businesses than there are in the most advanced technology fields.
- "Emphasize the small and entrepreneurial: New jobs are tending to come from new companies." In the past decade the nation's 500 largest manufacturing concerns have not added a single job to their collective total.
- "Retention can be more important than recruitment." Surveys show that about three fourths of jobs come from local companies.
- "Advertise, but don't overadvertise." A development group should refine its work, Levine advises, before advertising. He says a lot of the $100 million spent each year on such advertising is wasted because "the communities in question have not done their homework."
- "Develop an effective system of follow-up." Keeping a company serviced can be a challenge, and, Levine says, "The whole community should participate in this follow-up phase."
- "Where possible, ride on somebody else's budget." The hundreds of federally funded private industry councils have millions of dollars available for projects to generate jobs.
- "Persevere." In the past dozen years the average time required for a company to move from first inquiry to final decision has doubled, from 18 months to about three years. □

SPECIAL REPORT

A Tale of Two Companies And an Alabama City

Different Goals, One Destination



LIKE MOTORISTS taking different roads to reach the same destination, businesses of differing sizes and goals may follow their own paths but wind up in the same city.

Take the case of Huntsville, Ala., and two companies—Acurex Corporation and Sector Research.

Huntsville appeared from a distance to be a prime place for expansion to executives at Acurex, a Silicon Valley research, engineering and manufacturing company.

With the National Aeronautics and Space Administration's Marshall Space Flight Center and the Army's Missile and Ballistic Missile Defense Commands in the area, the Alabama city was a logical market for Acurex.

A concentration of electronics companies, including offices or subsidiaries of some of the industry's largest firms, demonstrated business potential. A group of Acurex executives directed by Chuck Nardo, business development manager of the company's aerotherm division, began to examine how to tap the market.

They commissioned a market analysis. It projected a pattern of budget growth over the next 5 to 10 years for the three federal agencies involved.

The aerotherm division's products include lightweight, high-strength equipment and electronics applicable to space use. Nardo and his team began planning how and when to set up shop in Huntsville.

"We identified the Huntsville community as a community in which there was going to be a lot of business going on," Nardo recalls.

"The next thing we recognized was the fact that the customers like to have local representation."

In part because of this predilection among individuals at the agencies, in part because of the need to hold meetings on short notice, it appeared necessary to open an office in Huntsville.

Acurex, with annual sales of about $50 million, had been dealing with government agencies in Washington and Albuquerque from its headquarters in Mountain View, Calif. It had opened only one office away from its headquarters since it was started in 1965—a one-contract operation in Dayton, Ohio, through a program in which the federal government owns a facility operated by a contractor.

What do you do? Nardo asked. Do you open a one- or two-person office and then look for business? Do you solicit business in Huntsville long-distance from Mountain View and then open an office in the northern Alabama community?

In September, 1982, Robert Mawhinney, corporate director of business development, was called in for help in dealing with the problem. Acurex developed a strategy: Mawhinney would move to Huntsville on a temporary basis to get the office going.

Then, in early 1983, Acurex got a big break—it landed a subcontract from McDonnell Douglas Technical Services Company, the general contractor in a

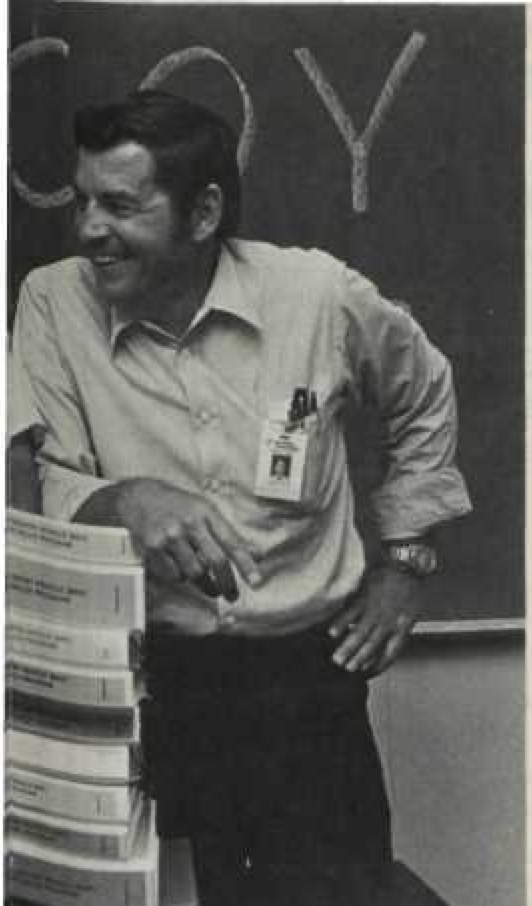


PHOTO: ACUREX CORPORATION

Chuck Nardo (left), with Acurex Vice President Duane Baker, was the man who began planning for the firm to expand to Huntsville.

multinational project to build a computerized simulation of the space lab, the part of the space shuttle in which scientific experiments are conducted. Acurex would assist in developing computer software for simulating missions in a ground maintenance facility.

WITH THAT SUBCONTRACT, amounting to about $500,000 through June, 1985, Acurex gained the prospect of a Huntsville office that would "be profitable from day one," Nardo says.

During the preceding few months Mawhinney had periodically visited Huntsville, interviewing prospective clients to get an idea of the specific job skills his staff should have.

He then interviewed about 25 prospective employes, eventually hiring a staff of two, "trying to build a definable capacity" to perform certain kinds of contracts.

Mawhinney moved to Huntsville in January, 1983. He searched for an office site, finally picking one near the busy Cummings Research Park. Acurex now had its own highly visible building next to the road to the airport.

Opening the office two months later, Mawhinney and his staff members were welcomed in the press, by the local chamber of commerce—which actively recruits firms for the area— and,

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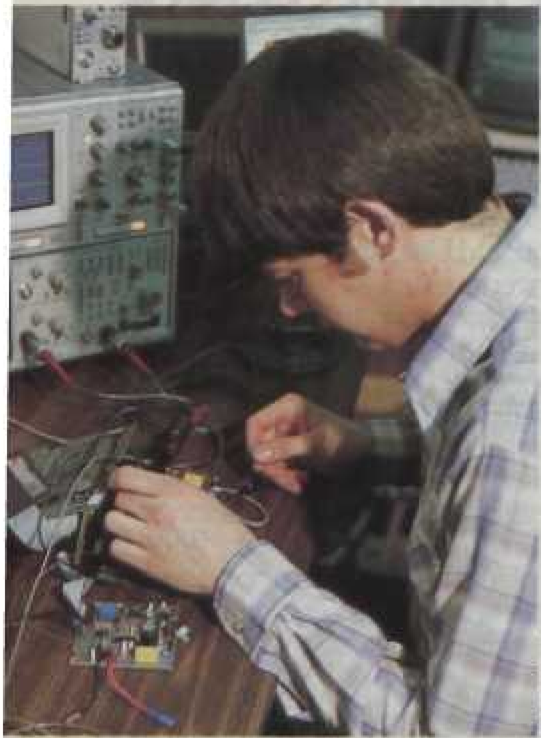

Huntsville electronics workers like this one require training—and need a capacity to be painstaking at handling tasks.

in a teleconference, by Alabama Gov. George C. Wallace. Acurex officials, overcome by Southern hospitality, dryly note they would not have been greeted by the governor of California if they had opened an office in Los Angeles.

Mawhinney planned to return to Mountain View, turning over the Huntsville operation to someone else when the operation had developed a backlog of orders and seemed to be established. He hoped that would be in six months. But the office attracted less business than anticipated.

Nardo says it took Acurex longer than planned to become known to potential customers among private companies in the area, and—as is often the case in highly specialized fields—the small Huntsville staff sometimes did not possess specific skills needed for a particular contract. However, Mawhinney says he enjoyed great cooperation from both the local chamber of commerce and other businesses: "All in all, it's a very receptive place to go to start a business."

Mawhinney returned to Mountain View last January. William J. Dolan,

continued on page 44A

The Town That Soared

Huntsville, Ala., might be called the town that the late Wernher von Braun built.

In 1950 Huntsville's population was 16,000. Von Braun's influence is one reason the figure is now 150,000. The German-born scientist, who lived in Huntsville while he was helping start America's space program, said that "the high tech companies will go where the brains are."

He encouraged development of Cummings Research Park, which contains 35 plants, employing 11,000 people, and the campus of the University of Alabama-Huntsville. The research park has, as von Braun expected, filled up with high tech firms.

Similarly, a driving force in the growth of California's Silicon Valley, another notable high tech area, was its proximity to Stanford University and the University of California, notes John C. Wright, president of the University of Alabama-Huntsville. In Huntsville, government space and missile activity was the magnet for high tech firms.

The university offered graduate courses in the engineering school before it offered any undergraduate classes.

Roger Kane, associate engineer at one Huntsville company, Universal Data Systems, says the school's schedule "is important to us because our engineers can get graduate degrees. Graduate courses start after 4 p.m."

Huntsville has a small-town atmosphere, says Robert A. Rieth, vice president of Teledyne Brown Engineering, who moved to Huntsville from New Jersey. "I can live on the top of that mountain over there and be in my office in 12 minutes," he says. "This town is still small enough to permit a close relationship among the city, the university and the private sector."

Everything has not been rosy, though. The space program's late-1960s slowdown left 17,000 Huntsville high tech workers unemployed. Companies began to seek business in the commercial sector. Now less than 35 percent of employment is on military and space contracts.

From Adversity, He Learned The Value of Diversity

Clay McGowan has succeeded in broadcasting, manufacturing and many other enterprises. Now he is 100 percent behind the 2% Club.

By Del Marth

CLAY MCGOWAN is a businessman with unusually diverse interests. In one corner of his office is an exercise bicycle. Against a wall are cartons of files. A short bounce from his desk is a trampoline. Metal file drawers, long filled, serve as pedestals for stacks of additional correspondence. Two golf clubs lean against an unhung picture. A trio of Charles Russell's Western prints decorate the walls above a credenza holding framed letters from the White House and a photo of President Reagan and friends on horseback.

McGowan's enterprises are as eclectic as the decor.

Just turned 65, he has been president of everything from a bowling alley to a radio station to a toothpaste tube company to a rice paddy. And much more.

Diversity—it is a lesson he learned in high school during the Depression, in the Sacramento Valley of California, in and around the town of Chico.

"I was only a student and had no big ideas about making a lot of money," he recalls, "but nearly everyone in the area in the mid-1930s was having bad times. Many of the people were growing rice. This has always been a big rice area. And I saw neighbors and friends going broke. They couldn't sell their rice, and they couldn't keep up the payments on their land. They lost it all.

"I said to myself, boy, when I go into business I am not going to rely on one thing like that. I was going to diversify."

But McGowan nearly forgot that vow.

Returning home to Chico after World War II, he and his two brothers bought a small rice farm. Ten years later, in 1955, McGowan Farms was up to 3,000 acres, but Clay McGowan was still totally in a single enterprise.

"I never thought of myself as a farmer," McGowan says. "I had an experience in World War II that made me think I was more cut out for a life in business."

That experience was being commanding officer of a staging area in India from which passengers, as well as freight, were flown over "the Hump" into China. For McGowan, then an Army captain, those two years were "an absolutely fabulous experience.

"The weather was awful, the food the worst in the world, the roofs leaked, the tents kept blowing over. And here were all these people trying to get planes into China—a couple thousand Chinese troops, American troops, congressmen, Madame Chiang Kai-shek, Gen. Joseph Stilwell. Some folks were hard to handle so it was a real lesson for me in handling people.

"Looking back, it was the greatest experience of my life. And, today, I believe the toughest and most important part of business is handling and working with people."

McGowan's first civilian challenge of that kind came in 1956, when the three brothers divided the farm. Clay, at 36, wanted to be a businessman instead of a farmer. His brothers wanted to remain in farming, and they did.

"I decided to become partners with an Army buddy," McGowan says. "He had a small plant in Brooklyn, N.Y., Victor Industries, making metal tubes for toothpaste, hand creams, shampoos—that

Clay McGowan has devoted much of his career to developments like an industrial park in Chico, Calif.—he is standing in front of a map of it. "I would hate not working," he says.

sort of thing. He offered me an option on stock to go into the business with him. The idea was to build a tube manufacturing plant in Chico. There were 17 tube manufacturers in the country, but all of them were in the East. I decided to try it for a year."

McGowan converted surplus buildings at what had been a wartime air base near Chico into a plant. Then he hit the road selling himself and the company to big tube users like Procter & Gamble and Colgate.

"I saw very soon we weren't going anywhere without a new, efficient building, so I traveled around studying plants and manufacturing techniques, trying to improve our layout," he says. "We built the new plant, and our production doubled."


McGowan started out as a rice farmer and still is one, but, he says, "I never thought of myself as a farmer." He went into making metal tubes, then into radio.

In a few years Victor Industries had plants in Iowa City and Mexico City, had expanded from fewer than 100 employes to more than 600 and was doing $2.5 million in business annually.

But McGowan, who still owned a 1,000-acre farm on which employes were now growing almonds and prunes, as well as rice, and who now was president of Victor Industries, did not feel diversified enough.

"I was looking around at other things to get into. I checked out some 30 radio stations in California that had been sold in the last five years. To my surprise, 80 percent of them never made a dime, yet they sold for three to four times what they were bought for. I said I wanted to get into a business like that."

So he did, along with his Brooklyn tube partner. Calling on a network of business friends he was making, McGowan learned of a station in nearby Red Bluff for sale.

"It hadn't shown a profit in eight years," he recalls, "so we bought it and made an aggressive young salesman there the general manager. I put in my own controller in Chico over the accounts receivable. We were in the black in three months. It was one of those lucky deals."

Of course, more than luck is involved in such successes.

"Clay McGowan is an excellent businessman," says Chico City Manager Fred Davis. "He does things the correct way, always seeking quality improvements. He is an excellent citizen, too. There are always people who put their names to community projects but add no substance to their efforts. Clay is not like that. He has supported bond issues, airport improvements, sewerage needs, recreational facilities—he's a hard worker. He enjoys working."

McGowan, who admits to not having gotten home before 6:30 p.m. much in the past 40 years, says that in recent years "I think I have spent only 10 percent of my time on my business. I am trying to get that up to 50 percent this year."

THE PERCENTAGE of his time he spends on the job seems to make little difference. He is exceptionally productive. He sold out of Victor Industries after nine years and of the radio station after seven years. By then, 1965, he was a successful man who could have comfortably avoided further risk-taking. But the formula—diversifying, working with people, making more and better contacts in the business world, surveying the area and state for more entrepreneurial opportunities—was now familiar to him, so he kept taking risks.

He has since become a partner in a shopping center in Redding, a California educational film-making company, a petroleum firm in San Francisco, a cattle association experimenting with the Simmental breed and two bowling alleys in Chico.

He helped start North Valley Services, a Chico corporation developing office buildings for utilities and financial institutions. The same group started the Chico Savings and Loan Association. And McGowan developed a shopping center in Yuba City.

In 1980 he began building his own industrial park on a 40-acre tract in Chico, putting in all the infrastructure, selling lots, putting up buildings "on spec" and leasing. As with every venture he undertakes, McGowan describes it with youthful enthusiasm as having a "fabulous" future.

But his superlatives and major effort this year are reserved for what he says is "the most important thing I've done in my whole life." It is called the 2% Club.

McGowan did not know about the club when it was organized nine years ago in Minneapolis. Its goal was simple: persuade corporations in that city to give 2 percent of their pretax profits to nonprofit, public service organizations.


Each May McGowan (left) takes part in what he calls "the world's biggest horseback ride." Sponsored by a group called the Ranchero Vistadores, the ride takes six days.

"It has been a great success there," McGowan says. He says 100 corporations signed up in Minneapolis, encouraging business people in Seattle, Phoenix, Jacksonville and other cities to organize similar clubs. McGowan has decided to take the idea a step further in California. He is building a 2% Club statewide.

Proposition 13, the 1978 voters' initiative that severely limited property tax increases, "really cut into government revenues in our

state," he says, "creating financial problems for cities as well as nonprofit organizations. In addition, President Reagan has been speaking to the private sector, asking it to pick up the slack as he cuts down the size of government."

McGowan believes a California 2% Club can take up that slack. And, when he was elected president of the California Chamber of Commerce for 1983, he set about to do just that.

"For a club to have 100 members, hell, that's nothing," he says. "There are 14 million businesses in America. In California every chamber of commerce should start a 2% Club, and we have some 300 full-fledged chambers."

DURING HIS CHAMBER presidency, 14 chambers signed up, bringing 1,000 members into the club. After his one-year president's term, he took over the 2% Club task force and now is working to bring in thousands more members.

President Reagan has sent him a letter saying: "I hope that someday you will be able to tell me you have 2% Clubs with thousands of members in at least 50 cities in California." California Gov. George Deukmejian has sent a similarly supportive letter.

Says McGowan: "We intend to invite both of them to a banquet honoring 2% Club members when we reach the 50-city goal."

No one doubts that banquet will be held. McGowan is a proven organizer. He once headed the California Chamber of Commerce small business committee, and "in three years we signed up 167,000 small business as members."

McGowan's wife, Faye, who was teaching kindergarten when they were married in 1943, does not expect to have her husband underfoot soon, even though he is at the traditional retirement age.

"I know myself well enough to know I would hate not working," McGowan says. He is talking about another shopping center. And he is also eager to "put something back."

To McGowan, "If you are lucky, as I have been, and given an opportunity by your country to make something of yourself, then I believe you should put something back."

That attitude may well upset McGowan's talked-about plans to spend more time on his businesses. His friends expect his office furnishings may become even more eclectic as he passes through, emptying his briefcase and car trunk, on his way to another "fabulous" venture. □

To order reprints of this article, see page 73.

Next Month in **Nation's Business**

Do You Have What It Takes?

What does it take to be a successful entrepreneur? An examination of the characteristics and skills needed to run a business, complete with a checklist, case histories and sources of assistance.

Workers Who Can't Read

Millions of American workers are considered functional illiterates, and their mystifying, often-hidden handicap costs their employers billions. A report on what employers can do to help these workers—and themselves.

Business Openings in Space

Commercialization of space is getting closer, although—perhaps appropriately, in such a field—there is a long way to go. With plans to manufacture in space actually on drawing boards, a drive is on to cut government red tape.

Where To Find Capital

There is a growing trend in the financing of new ventures: specialization. A report on why certain venture capitalists now work only with certain types of companies—and on what this means to the business seeking funds.

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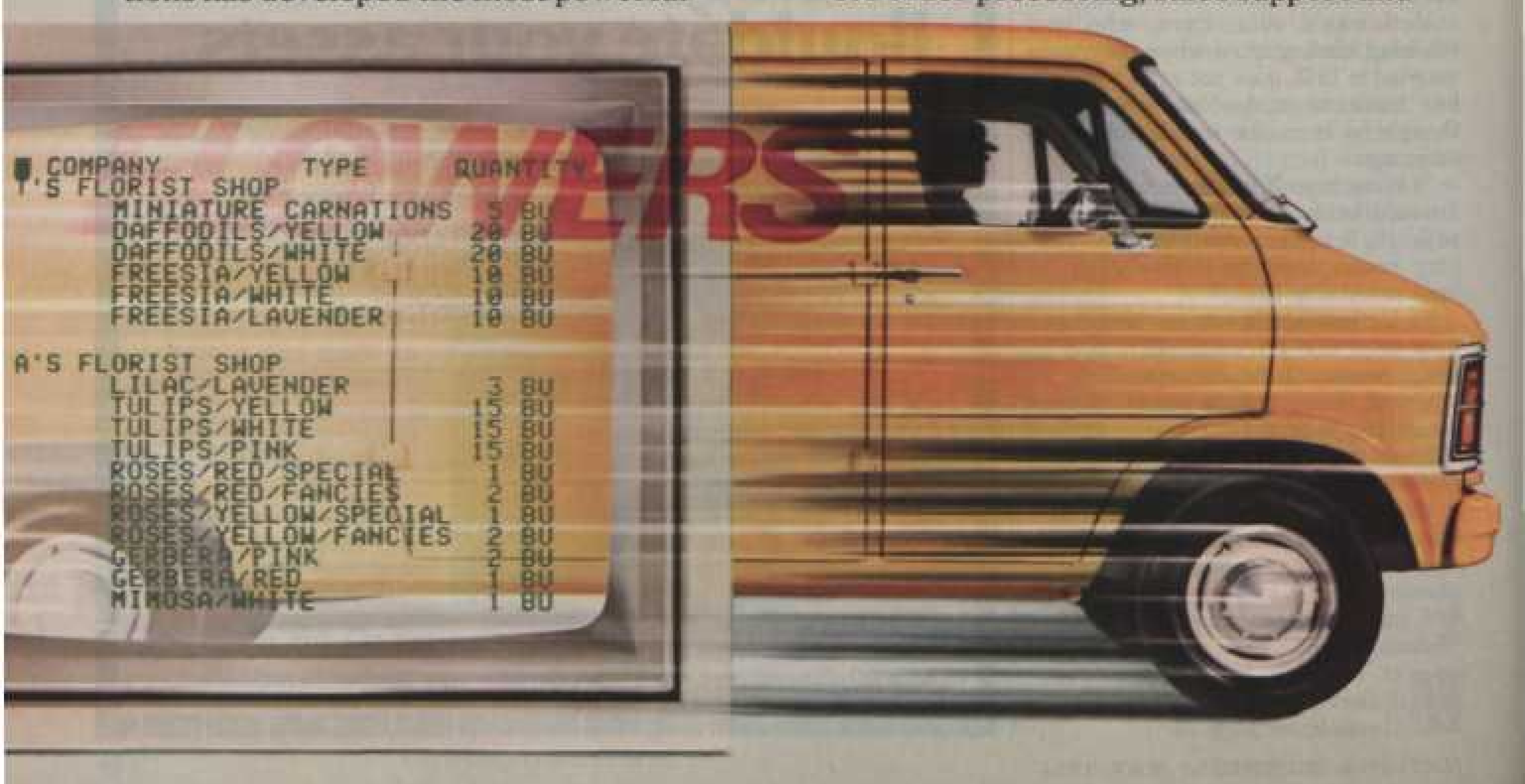
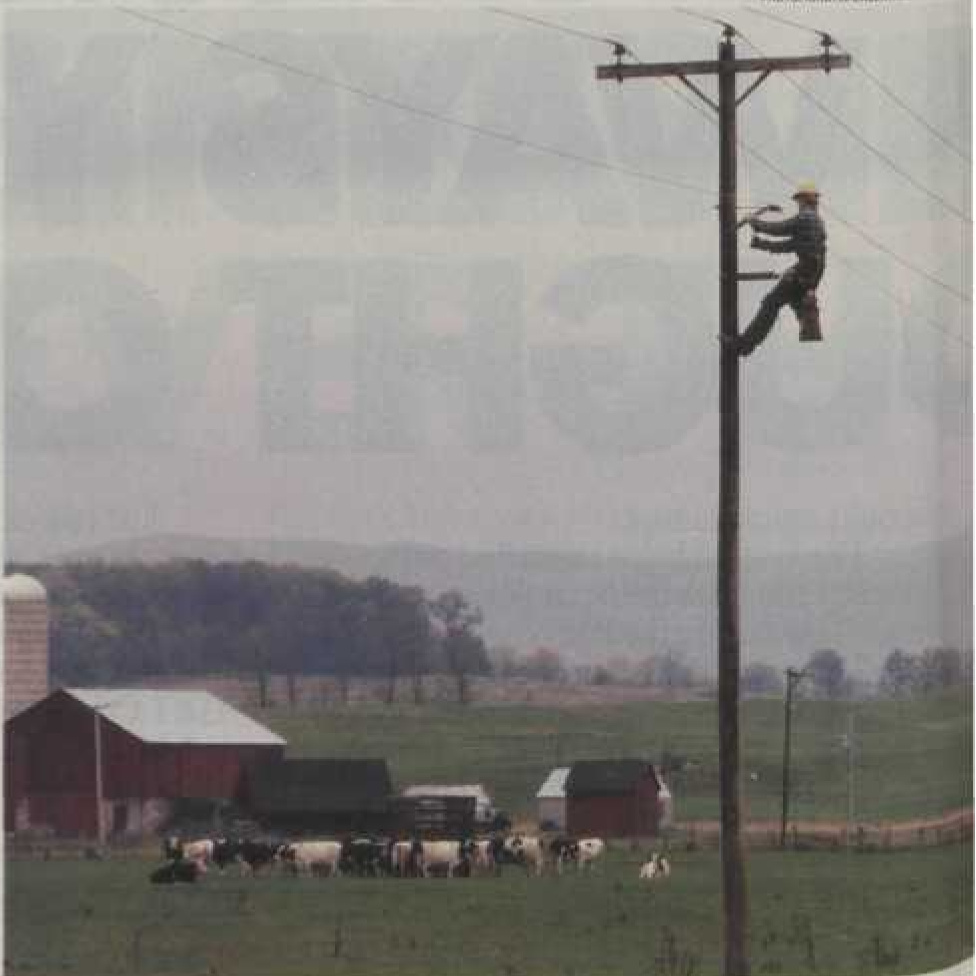


The Co-ops' Political Power

Congress is likely to yield to lobbying and forgive repayment of billions borrowed for rural electricity.

PHOTO: KRISTIN CALLAHAN



PRODDED BY election-year politics and a potent lobby, Congress appears likely to write off $7.9 billion in federal debt owed by the Rural Electrification Administration.

Under present law, beginning in 1993 the REA must repay funds it has borrowed from the Treasury Department and used for loans to rural electric and telephone cooperatives. A House-passed bill would relieve the agency of that obligation. If the Senate agrees, loan money repaid by the co-ops would go into the REA's revolving fund and become available for additional loans, instead of going back to the Treasury.

The House bill passed by a 283-111 vote March 1, despite warnings that it contains hidden multibillion-dollar costs.

A Senate version of the measure has 44 cosponsors and tremendous support in the farm belt. But if it passes, Agriculture Secretary John Block says, he will urge President Reagan to veto it because of its budget-busting impact.

The REA's finances have been a nightmare for REA Administrator Harold Hunter. In 1986, his staff estimates, the agency's revolving fund will begin to lose money: The REA will be paying more in interest on the money it has borrowed from the Treasury than it receives from its co-op debtors. By 2002, some believe, the REA—which has been extending service to rural areas since its creation in the 1930s—will go broke.

There are over 1,000 rural co-ops in the United States, serving more than 25 million people. Their Washington representative, the National Rural Electric Cooperative Association, has powerful friends in Congress—and the NRECA has eight lobbyists to keep in close touch with those friends.

Hunter, an Oklahoma rancher, calls the House-passed bill a bailout.

"It is an attempt to stampede Congress into actions that purport to strengthen the fund," he says. "In fact, it would only serve to delay, at great cost to the taxpayer, the fund's insolvency. It would perpetuate unrealistically low interest rates, increasing borrower reliance on the federal government."

Hunter believes co-ops should look more to private financing for loans to maintain and upgrade their systems. He also insists that co-ops are able to afford interest rates higher than the 5 percent they pay on REA loans.

The co-ops do 70 percent of their borrowing from the REA. The revolving fund is in such bad shape, says Hunter, that even if the $7.9 billion debt is forgiven, "the fund will still go insolvent" if future conditions resemble those of recent years.

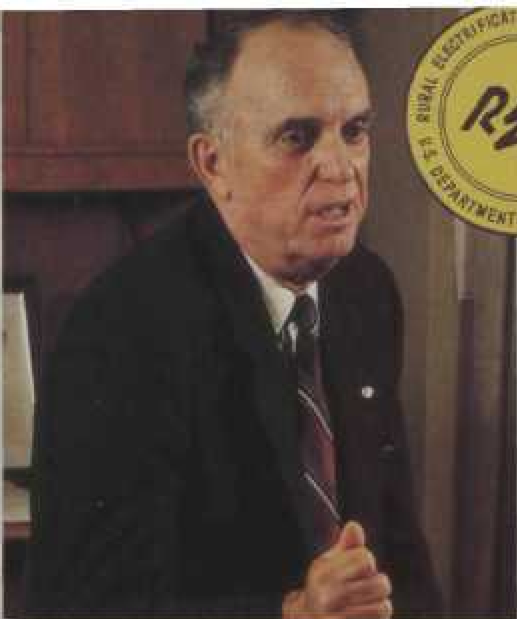
The American Farm Bureau Federation, representing 3.3 million rural families, joins Hunter in condemning the House-passed bill. In a recent statement to Congress it said the REA is already courting disaster by borrowing money to pay interest on money it borrowed to make loans to co-ops.

"Because of rising interest rates and the demand for loans, it has been necessary to borrow against the resources of the revolving fund," the federation says. "The interest rates on borrowings of the fund have been higher than the 5 percent interest REA collects from its borrowers and are the basic cause of the fund's current difficulties."

It sternly rejects transferring the payments co-ops must make from the Treasury to the REA fund. "The write-off would have to either be made up from the public by increasing taxes or increasing the government's debt," the Farm Bureau notes.

FEW OF THE PARTIES to the debate challenge the need for some level of public backing for rural power distributors. NRECA economist Donald Smith, in testimony before the House Agriculture Committee, quoted government figures showing that tax subsidies aid both public and investor-owned utilities. He calculates that investor-owned utilities receive federal assistance that exceeds $4 billion annually, considerably more than the $83 million in government help that electric co-ops get in below-market interest costs and funds to meet the expense of running the REA. Publicly owned electric utilities,

Electric co-ops say billions more federal dollars are needed to keep power flowing to rural America, where maintenance costs are higher than in cities. But REA Administrator Harold Hunter says co-ops should shoulder more of the financing burden.



Smith says, get $331 million a year in tax breaks.

The REA also provides loans to rural telephone concerns: 258 co-ops, 766 companies and 4 public bodies. The phone groups, represented by the United States Independent Telephone Association, support the House measure, saying it is needed to ensure future funding for expansion dictated by technological change.

The co-ops' political clout comes from lawmakers like Rep. Kika de la Garza (D-Tex.), chairman of the House Agriculture Committee. He maintains that "electric cooperatives have built and maintained 50 percent of the nation's electric lines, yet they account for less than 10 percent of total electric sales."

De la Garza adds that the average electric cooperative's revenue per mile is about 8 percent of that enjoyed by the average power company, and its consumer density is just 13 percent of a typical investor-owned utility's.

It is, in other words, much costlier to run a co-op in the country than to operate an urban electric company. The NRECA says rural co-ops bill only 5 customers per mile of line, whereas city companies bill 35.

The co-ops hope to convince Congress that their special relationship with the government has been beneficial to economic growth and is required to maintain a satisfactory level of rural electric and phone service.

Arguing their case, Rep. Don Albosta (D-Mich.) says, "By providing this power where it otherwise might not be available, the co-ops have made possible the growth of new business and industry and allowed the American farmers to produce more effectively and efficiently than any other farmers in the world."

Calling the bill a bailout "is a gross misrepresentation of the real issue," says de la Garza. "This legislation seeks to answer the question of what level of public investment should be made in rural America and whether that investment will bring benefits that will accrue to all Americans."

MANY WHO SPEAK for the co-ops insist that the Reagan administration seeks to dismantle the REA.

J. Bernard Beemiller, general manager of Bedford Rural Electric Cooperative, Inc., in Bedford, Pa., says that if federal loans dry up and the co-ops are forced onto the open capital market, his 6,736-customer service could collapse.

The Bedford co-op distributes power to a rural community of residences, dairy farms, logging camps, stone quarries, ski resorts and small businesses. Bedford is a 30-year-old system that constantly requires new lines, transformers and poles.

If Bedford's cost of borrowing rises to commercial levels, Beemiller says, "I guess that would get to the point where my customers would no longer want to stay with the co-op but go to investor-owned service." Already, Beemiller says, Bedford users pay about one fourth more for power than do those who buy private power in that part of Pennsylvania.

Supporters of the co-op bill recognize the need for higher interest rates on loans from the revolving fund, but they insist rates cannot be allowed to rise as high as interest rates on commercial loans.

The Reagan administration has not said how high interest rates on REA loans should be allowed to go. Negotiations between the co-ops' allies on Capitol Hill and the REA will focus largely on an appropriate interest ceiling.

Interest rates are what those warnings of hidden multibillion-dollar costs in the House-passed bill are all about.

In addition to forgiveness of the $7.9 billion, the bill raises rates charged on REA loans—but not to commercial levels. As a result, opponents of the measure say, more than $11 billion in subsidies can be expected to flow to the REA by 1990.

SUCH SUBSIDIES are not necessary, says REA Administrator Hunter. He says the average cost to the co-op consumer of sufficiently increased interest rates would be no greater than "having to cut down by one hamburger a year." But co-op spokesmen say some customers might see their bills rise hundreds of dollars annually.

Hunter's strategy is to stall passage of the co-op bill, but the smart money predicts a co-op victory this year.

Meantime, Harold Hunter is buttonholing lawmakers and preaching to co-op officials in dozens of speeches across the country.

He recently urged a Senate subcommittee to consider "the value of many federal benefits already provided to the cooperatives—subsidized direct loans, 100 percent loan guarantees, tax-exempt status, tax-exempt municipal bonds for pollution control equipment, incentives under safe harbor leasing even though most cooperatives have been tax-exempt, and preferential low-cost federal power."

The loan forgiveness and subsidies in the pending legislation, he noted, would be in addition to federal subsidies "received in the form of forgiveness of annual interest on the $7.9 billion in the revolving fund." The REA has not had to pay interest on the fund since receiving the money from the Treasury in 1973.

Hunter said the legislation is not consistent with 1973 REA legislation's goal of "greater borrower reliance on private credit" and is an "overreaction" to potential problems with the revolving fund.

In fact, said Hunter, the legislation represents a "virtually total abandonment of the congressional consensus we had about the direction and future of the fund when it was created."

Hunter's nightmare is that in the not-too-distant future the whole REA apparatus will come crashing down like an old barn in a windstorm. □

continued from page 36H

who has 25 years' experience in the aerospace business and a long working relationship with many federal managers in Huntsville, took over Acurex's Huntsville office on a permanent basis.

Dolan says one of the advantages to a Huntsville presence is that the Army and NASA people enjoy working "with a cadre of talents outside their gates."

The Acurex staff now totals eight, and it is expected to number 15 to 20 by the end of this year, in anticipation of a manyfold increase in business. Nardo says the increase in staffing stems from recognition that "we have to provide on-site technical capability—technical resources—to our customers."

The company is trying to create an overlap in technical expertise between its California and Alabama operations so that a project can be handled in both places, for greater flexibility and camaraderie in the aerotherm division. Transferring some work from Mountain View made the bigger Huntsville staff possible.

Mawhinney says the long, dry months last year were important because the groundwork was laid for contracts later. This February Acurex officials landed a contract they had been pursuing for 12 months.

Acurex officials are emphatic about the success of the move despite the shortfall in contracts last year. An office in Huntsville, they say, was the key to gaining an opportunity to expand their aerospace business.

PHOTOS: TOM POST

Acurex chose a location that gives it visibility and accessibility. William Dolan, who now runs the office, has many contacts among his sales targets.

ANOTHER HIGH TECH company's move to Huntsville was altogether different. Acurex's move was a market-directed expansion by an established firm. Sector Research's move resulted from the efforts of a new company to find a home.

James Martin took his company to Huntsville shortly after starting it in Houston two years ago. Martin, the company's president, had become familiar with Huntsville from visits he made while doing consulting work. He and the firm's other two officers decided they wanted to be near the semiconductor businesses that have clustered around the NASA and Army agencies there.

Sector Research makes custom applications for both manufacturing and service companies by adapting older products to high technology. For instance, Sector Research might do the research and development to set up a central

PHOTO: TOM ROST

James Martin of Sector Research decided his start-up firm could grow rapidly in Huntsville.

monitoring system for water meters and then either manufacture or arrange for the manufacture of the system for a maker of water meters.

With the increasing integration of electronics technology in existing businesses, Sector Research has prospered. "We're growing about threefold annually," says Martin, 26.

He adds that "our growth is directly attributable to our being in Huntsville," citing not only the opportunities within the cluster of research-and-development-oriented businesses there but also the benefits of relatively low rents and salaries. With a current contract backlog of $3.5 million, the firm has gone from seven employes last year to 30 now. Martin expects to have a staff of 100 by the end of this year.

There are obstacles to this spectacular growth, however. "The problem," Martin says, "is that Huntsville, unlike Houston, has little available capital."

He complains that he has found local bankers oriented to the consumer market and that he has had to go to Nashville, about 100 miles north, to get the financing for his expansion. Other entrepreneurs, he says, have to visit bankers in Atlanta or New York.

In retrospect, Martin admits he does not know whether he would again pick Huntsville, even though he has enjoyed success there. One of the other magnets for high tech companies—Atlanta, Austin or Houston—might have offered greener pastures, he speculates.

He does say, though, that Huntsville has been fortunate in attracting a number of small companies with potential for rapid growth.

In too many communities, he says, "there's an error in focus," with a heavy emphasis on recruiting major corporations when more jobs can be created over a few years if several small companies begin to mushroom. □

PHOTO: TOM ROST

Sector Research updates techniques for client firms. Then it makes products to implement the techniques.

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Burnishing an Image

SYRACUSE, N.Y., is one of many communities to discover the importance of image. As Northern cities began to lose jobs during the 1970s because companies were moving to the sun belt, or their market niches were disappearing, Syracuse decided it had to project a positive picture of itself.

A coalition of eight private and public groups, headed by the Greater Syracuse Chamber of Commerce, formed a business recruitment organization called Greater Syracuse. Its object was to put a sheen on the local image, both in the community through a local pride campaign and nationally through advertising and public relations. After raising $3.2 million for a four-year program, the group set out to market its community like a product.

A consulting firm was hired to analyze the area's resources and existing businesses. The consultants reported that companies in such water-intensive industries as food processing and pharmaceuticals were natural targets for recruitment because the area uses only 70 percent of its water capacity, and capacity could easily be increased.

The program did something else that similar efforts across the country have also begun to do. It encouraged people in Syracuse to look at their existing businesses as both a vital asset to be retained and nurtured and a potential source of testimonials in recruiting other companies.

Two professionals targeted 250 local firms to visit in order to understand their needs, often putting the companies' officials in touch with people who could assist them in dealing with specific problems. This helped make local business people feel that their community valued their presence and sympathized with their problems.

Public-service advertisements in magazines likely to be read by potential business recruits have featured local executives relating how they received help. Dick Schneider, president of Schneider Packaging Equipment Company, tells how the chamber of commerce staff put him in touch with local people who assisted him in securing a loan from the New York State Job Development Authority and a bank. The happy result: a new plant for Schneider and five new jobs for Syracuse.

WITH THE HELP of market research, Syracuse has begun to point out that 40 percent of the area's manufacturing labor force is employed by more than 150 high tech companies, ranging from small start-up outfits to General Electric's big defense electronics complex, with Bristol Myers and a host of smaller biotechnology firms active.

Because of a strong industrial base including defense electronics, biotech products, medical devices and consumer electronics, suppliers and customers of the local companies are a logical target for recruitment.

An essential factor in landing high tech companies is the presence of a good technical school that cooperates with industry. Syracuse University is developing a Center for Advanced Technology in Computer Applications and Software Engineering (mercifully known as the CASE Center) to do cooperative work with local companies.

Bernard Hitchcock, board chairman

Downtown Syracuse: A frost belt community nurtures hometown firms, to retain them and to use their testimonials in recruiting businesses from elsewhere.

of Pico Products, Inc., in nearby Liverpool, says, "A big reason there is so much high technology in this area already is the superb engineering school at the university. The increased cooperation with industry at the CASE Center, and the work-study programs it will offer, will do still more to encourage people to stay in this area."

Bradley J. Strait resigned as dean of the Syracuse engineering school to become the center's managing director.

"The objective," Strait says, "is to take the expertise in the academic area and combine it with the expertise in industry" for applied research and development. The Syracuse center is one of several doing applied research in different areas as New York State brings industry and academia together.

Strait says part of his center's work is done in cooperation with IBM. "They have made a full-blown computer system available to us for a computer study we're doing with them," he notes.

In conjunction with computer software companies, the center is seeking to develop computer-based "expert systems" that would serve particular businesses or professions, such as a system that could make diagnoses in certain areas of medical practice.

This work, Strait says, takes advantage of the academicians and people in nearby industries.

The Greater Syracuse program has included trade missions to targeted areas and a local multimedia center where prospective professional employes are given a look at what the community offers them. The local pride campaign has included programs to teach schoolchildren more about the area.

So far, halfway through the four-year plan, the program is "building a base for Syracuse," says Maria Russell, director of communications at the Greater Syracuse chamber. About 200 new jobs can be attributed to the program, Russell says, adding that her group now has leads for many other job-producing moves. She says that, typically, it takes time for a relocation to come to fruition. "We feel that seeds we're planting now will grow in three to five years," Russell says. □

SPECIAL REPORT

How Transit Helps

Economic developers and mass transit can help each other. Making office or industrial developments convenient to mass transit can mean the difference between success and failure for the developments, particularly if they are in congested areas.

And, says Ralph L. Stanley, administrator of the Urban Mass Transportation Administration, developers who help pay for transit facilities improve their communities' chances of getting federal subsidies for subway and bus systems.

Stanley, whose Department of Transportation agency distributes billions in transit funds to local governments, discusses mass transit's relationship with economic development in the interview that begins on page 44H.

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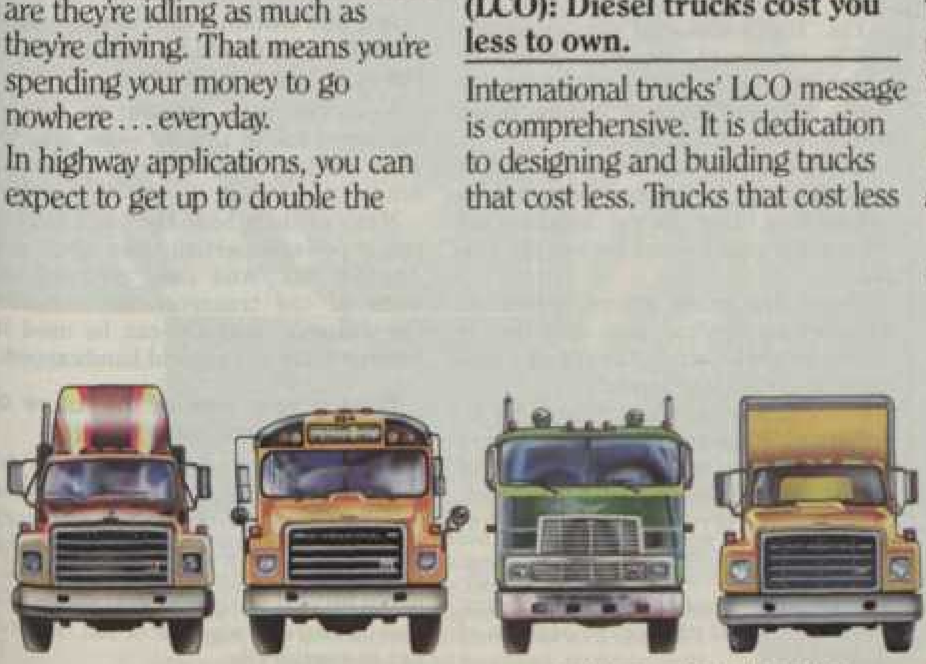

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Does mass transit have a major impact on economic development?

We did a study here in the Washington area and found that, over the last 10 years, 52 percent of all commercial development in the area occurred at or around Metro [subway] stations—$2 billion in commercial development.

The next step is to say that if this is true, how can we get that development to pay back into the system to help with operating expenses?

PHOTO: KEN HEINEN

Ralph Stanley: Developers should return the favor that mass transit does them.

Is a primary contribution that can be made by localities and economic developers a commitment to have some kind of special use or impact tax?

Yes. That's essential. As far as taxing is concerned, the best gauge of whether a community really wants or needs a transit system is how much money it will put on the line.

If you can't get a dedicated source of local funding for transit passed in a referendum, that to me means your community really doesn't want the system.

There are cities where referenda have set up funding in a way that is commensurate with the need. And there are cities that haven't.

There is a tremendous future for alternative financing now. We've placed great emphasis at the Department of Transportation on so-called user fees. Seventy-three percent of the budget at DOT is user-fee-based.

I think commercial properties are going to have some kind of financing mechanisms that pay for the benefits of mass transit.

Would you cite a transit system that has such mechanisms?

The Los Angeles subway system planners have come up with some innovative private-sector funding mechanisms. They have proposed a special benefit assessment district around each of the proposed stations.

One of the stores out there wanted a station built near it, and it is going to come up with most of the money.

Is it a coming trend for developers or corporate residents of an area to actually build a station?

Perhaps. Two thirds or three quarters of central business district employes are going in by public transit. And I hope there will be greater effort to encourage employers to recognize that they should pay directly for service.

Is Los Angeles an example of a transit system that got additional federal money because of cooperation from private groups?

Yes. One reason that the Los Angeles project is cost-effective is that the plans indicate ability to raise substantial sums through public-private partnerships.

How much does UMTA typically finance nationwide?

We have a total budget of about $4.2 billion. This past year about $875 million went to operating assistance and about $3.5 billion to capital assistance. About two thirds of the capital assistance goes out by formula based on size of population, urbanized area, number of riders in miles and other factors.

Are you working with smaller communities that would be dependent on buses as opposed to rail?

Yes. The most innovative transit managers are in smaller cities, and we have worked with them in providing funds.

Many of them have the same kind of public-private participation that Los Angeles has. And they contract out some of the transportation services. For example, taxicabs can be used to transport the elderly and handicapped.

What is your view of the future of federal funding of mass transit?

In the Reagan administration, if you want federal transit dollars, the region and the business community must work together to commit to the long-term funding of a system. Their willingness to put up part of their capital assets is a real measure of whether or not the project is worthwhile. □

Celebrating The Job Producers

Small Business Week focuses on firms that are putting Americans back to work.

By Kathy Root

THE SLOGAN OF this month's annual weeklong celebration of American small business is "Small Business Means Jobs." The sentiment is right on target.

The Reagan administration's 1984 version of the "State of Small Business Report," which is sent to Congress each spring, is a paean to the job-creation capabilities of small companies.

Success stories from all over the United States will be honored during Small Business Week, May 6-12.

According to the report, which is prepared for the President by the Small Business Administration, small companies can take all the credit for about 985,000 new jobs added to the United States economy between 1980 and 1982. Small businesses produced a net gain of about 2,650,000 jobs, the report says, more than offsetting a net loss of about 1,665,000 jobs by larger businesses.

"Small businesses are the leading force in job creation during both economic recession and recovery and thus help spur business upswings and help moderate downturns," the report says.

Service industries continue to be the fastest-growing, accounting for about 1.2 million new jobs. Almost 90 percent of those new jobs were in small businesses.

Small companies employ 47.8 percent of the nation's private-sector nonfarm workers. They account for 42 percent of sales by American business and generate about 38 percent of the gross national product.

"The significance of this year's 'State of Small Business Report,'" says SBA Administrator James C. Sanders, "is its indication of the strength of the small business sector in our economy. We have seen . . . two out of three new jobs created by small business."

SBA Chief Counsel for Advocacy Frank S. Swain, whose office was in charge of compiling the annual document, adds: "It's nice to be able to say that even though some people questioned our assertion that small business would lead the way out of the recession, this year's report confirms that."

PRESIDENT REAGAN, in signing the report at a White House ceremony, hailed 1983 as "an excellent year for the economy in general and especially for small business."

In 1983 alone, the report states, small business income, as measured by the income of proprietorships and partnerships, grew 18 percent. In contrast, wage and salary income rose only 6.1 percent for the population as a whole. In the previous year, wage and salary hikes outstripped increases in small business income.

And a record 600,000 new businesses were incorporated in 1983, nearly all of them small companies. The previ-

Entrepreneurs Ginnie Johansen, Roberto Ruiz (center), Dean Robinson and Frank Huggins say hard work and economic upturn have made them successful. These risk-takers were honored by SBA chief James Sanders (far left) and the White House at a special ceremony highlighting small business achievements.


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ous record for incorporations was 580,000, set in 1981.

Small businesses continue to lead larger companies in employment growth. Among several industries tracked by the Bureau of Labor Statistics, employment in the small business sectors grew 2.6 percent last year, while employment in the large business sectors grew only 1.2 percent.

Industries that contain both small and large business sectors include construction, transportation, communications, public utilities, wholesale trade, retail trade, finance, insurance, real estate and services.

His administration's policies, President Reagan says, are a major contributor to the success of small business.

"The economy reflects the growing confidence of private-sector decision makers to invest capital and take risks," the President said during the White House ceremony. "Business decisions can be made more confidently with an inflation rate of 4 percent instead of 12 percent. Small business, which relies more heavily on borrowed capital, is better off with prime interest rates at 11 percent rather than 21 percent."

ONE SMALL BUSINESS owner who echoes that sentiment is Roberto Ruiz, an Arizonan who, along with three others, was cited by President Reagan during the White House event as "outstandingly typical" of American small business.

"We're confident that the economic climate will continue," says Ruiz, a Mexican-born engineer who heads both an engineering company and a construction company specializing in such public works as sewers, streets and highways. "With the economy looking up, especially in the Southwest, with the growth in jobs and the growth in business, we see great potential."

Ruiz's Maya Construction Company and Ruiz Engineering Corporation in Tucson, which had a one-person office at their founding in 1977, employ more than 100 today. In the last year, Ruiz has added 41 new positions to his business. Sales have grown from $1.4 million in 1979 to about $5 million now.

As the economic climate continues to improve in the Tucson area, Ruiz says, "we'll be adding managers and project supervisors."

Also on the lookout for additional workers are the owners of Disk-Tec, Inc., a manufacturer of computer storage components in Champaign, Ill. Dean Robinson and Frank Huggins also were named by President Reagan as small business success stories.

"We'll be hiring 39 more people over the next few weeks," says Robinson, who dubs his company's Midwestern location "Silicon Prairie." The high tech manufacturing firm produces aluminum substrates—metal discs—for computer data storage that are machined to tolerances within one millionth of an inch, using a system that Huggins invented.

The year-old company, which had no employes last spring, now has 220.

Like most start-from-scratch enterprises, Disk-Tec's initial capital came from a combination of loans and money put up by friends. "I got $10,000 each from 20 friends of mine who gave us the opportunity to prove that Huggins' machine worked," Robinson says. An SBA loan and borrowing from other sources brought the company's debt load to $1.8 million and its total investors to 60.

Robinson and Huggins project that Disk-Tec's sales will reach $15 million in 1984.

INITIAL CAPITAL was also a big hurdle for Ginnie Johansen five years ago. Encouraged by her father to begin retailing some fabric belts she had created when she could not find what she wanted in stores, Johansen had to turn to her father for cash as well as encouragement.

A $1,500 stake put her into business, and five years later, at the age of 24, Johansen heads a family-owned company—Ginnie Johansen, Inc.—that grosses $7 million annually from sales of 57 kinds of ladies' accessories and employs 90 workers.

A $25,000 loan from a bank, cosigned by Johansen's father, got the business rolling in its early stages, and the company grossed $300,000 in its first year. Now it has $300,000 in assets.

Johansen, who also was honored by President Reagan at the White House, says she thinks the administration deserves much of the credit for small businesses' success in the last few years.

The Small Business Administration will treat Small Business Persons of the Year from the 50 states, the District of Columbia and Puerto Rico to four days of special events in Washington. Small Business Week activities will be capped by President Reagan's announcement of the National Small Business Person of the Year at a ceremony in the Rose Garden.

In encouraging business people to participate in Small Business Week activities in their communities, SBA Administrator Sanders notes:

"The health of America depends in large part on our small business owners ... that's a very good reason for all of us to join in saluting these entrepreneurs. Our strength lies in the ingenuity and perseverance of our people. No other group of Americans better exemplifies this than the nation's small business owners." ☐

When the Market Is Quiet

By Ray Brady

To every thing there is a season, and a time to every purpose under the heaven.

A time to be born, and a time to die; a time to plant, and a time to pluck up that which is planted.

Ecclesiastes

A time to do nothing.

Wall Street, 1984

TALK TO HIM over a quiet drink, after the stock market has closed, in one of the bars that dot the narrow lanes off Wall Street. In late 1982 he hit it just right with his clients' investments: He realized early that the stock market was heating up, and he rode it right to the top. The money kept piling up in high tech and other stocks. His clients were delighted.

Then, for eight long months, the market became tough to beat. The Dow Jones Industrial Average dropped around 100 points, and a lot of stocks, ranging from high tech to housing, took really deep plunges. The market itself turned moribund: no action in it. And our friend in the bar is no longer one of the *wunderkinder* of Wall Street. He—and a lot of professionals like him—have racked up losses of 40 percent, 50 percent and more in their portfolios. The clients are snarling, not smiling, and taking their money elsewhere.

All that has brought on a new debate in Wall Street, one that many individual investors should bear in mind. The debate boils down to very simple terms: When the market cannot make up its mind about the future, what do you do with your money? Do you keep searching for that random, 1-in-50 stock that may go up? Or do you pull out entirely?

A small but growing number of professional investors are beginning to feel that discretion can indeed be the better part of valor. As one of them puts it: "There always comes a period when the stock market is blah. Then it pays to do nothing—go neither short nor long."

But what do you do with your money? "Put it in a money market fund," says this professional. "Then sit back and watch stocks get cheaper."

That, of course, runs contrary to the general Wall Street theory that a blah period in the market is the time when you gradually begin to accumulate stocks, so that you will be positioned for any rally that may come along. For example, Joseph McAlinden of the Argus Research Corporation felt that the recent market slowdown was a good time to accumulate a few solid stocks. As he argues: "Bull markets start well in advance of economic expansion."

In other words, if you are not in the market when the upturn starts, you may well miss a big part of it.

But there is a problem.

Over the past few years, Wall Street has seen the rise of literally hundreds of money managers—graduates of the various B-schools and brokerage houses who manage money for wealthy individuals, pension funds, banks and similar investors. They keep their jobs, basically, by outperforming the market.

> Do you search for the random stock that may go up? Or do you pull out?

RESULT: They all worry about missing the train, about not being invested when a new bull market suddenly starts. So, on any given day, they can all stampede into the market. (Or they can stampede out of it if they fear prices will fall—a performance that has been compared to a herd of elephants all trying to get through a revolving door at the same time.)

That herd psychology brings wide swings in the market that can be very misleading to the individual investor poring over the daily stock prices. The market shoots up 15 or 20 points in a single day. Is that a sign of a turnaround? Maybe not. It also may be a sign that a lot of professionals are worried that this *may* be the turn.

"There is a wealth of communications equipment available today," explains Maryann Keller of the investment firm of Vilas-Fisher, "and there is a flood of information you get from it instantaneously. Since everybody has the equipment and the information, they react to it at once, and the market shoots up or down."

But why don't all the professionals simply put the money in a money market fund and wait for a less risky period in Wall Street?

Keller laughs at the question. "Clients are paying you to do something with their money," she says. "They don't want to hear that you're doing nothing, so you've got to find stocks."

As Keller points out, it was possible to make money in that moribund market of the first quarter. Investors in some of the oils showed handsome gains, and as she notes, an investor could always go to the so-called defensive stocks, such as the tobaccos and the foods, when the market turned sloppy.

Argus' Joseph McAlinden also feels that, during such times, the investor can pick up a few stocks for income. Or, he says, the investor can look for so-called emerging growth stocks, which may be the winners of the future.

One of the strongest arguments for doing nothing comes from Fred Fraenkel, who handles investment strategy for the Wall Street firm of Prudential-Bache Securities. Fraenkel's belief: It is far better to stay out of a sloppy market, even if you miss the early upturn.

Fraenkel has studied the peaks and troughs in the stock market for a period extending back nearly to World War II. His conclusion: "In most stock market cycles over the past 35 years, you'd have done better to buy stocks three months after a market trough than three months before a market trough." In other words, buy when the market is already heading up, not when there is a danger it will keep heading downward.

Right now, of course, the stock market faces a number of imponderables: the huge federal deficit, the higher interest rates that could come from it, the Iran-Iraq war and what could turn out to be a closer race for the presidency than many Wall Streeters expected. Any or all could send stock prices tumbling.

In fact, for individual investors, who do not have to worry about investment clients, there may be no better way to end than with another quotation:

Keep your powder dry—better prices lie just ahead of us.

Fred Fraenkel, 1984

RAY BRADY *is the business correspondent for CBS News.*

Organized Labor's Pains

The unions hope a Democratic President and liberal Congress will bring relief.

By Harry Bacas

ORGANIZED LABOR has a "wish list" of legislative and administrative changes. And it thinks its wishes may come true if a Democrat is elected President and a liberal majority is sent to Congress.

The unions have put unusual emphasis on this year's elections, starting with the AFL-CIO's unprecedented pre-primary endorsement of a presidential candidate, Walter Mondale. And this year organized labor is better equipped than before to aid the campaigns of candidates it supports.

Revisions in the National Labor Relations Act top organized labor's list of legislative priorities, followed by automobile domestic content legislation and such industrial policy measures as controls on plant closings. The administrative priorities are the appointment of pro-labor candidates to the National Labor Relations Board and to key administrative jobs in the Labor Department.

PHOTO: T. MICHAEL KEZA

One reason unions want help: Technological change has brought a harsher climate for them. When this auto plant reopens after retooling, robots will perform many assembly-line jobs.

Organized labor's problems begin with declining membership. Thirty years ago, unions represented 1 in 3 workers; today, they represent only 1 in 5. The old-line industries in which unions have been strongest are shrinking, and many fast-growing new industries are resisting unionization.

The changes sought by unions in the nation's basic labor law would make it easier to organize workers. The last attempt to change the law was defeated in 1978.

AFL-CIO President Lane Kirkland says he would "certainly" expect Mondale as President to propose such labor law "reform" legislation "if we can count the votes" in Congress.

Such legislation would also strengthen the hand of unions in contract negotiations with employers. Although the economy has been recovering for more than a year, and unemployment has been dropping steadily, union negotiators are finding many managements reluctant to give up concessions made by union labor during the recession.

The auto industry, considered a bellwether, faces labor contract renewals this fall. Although many workers, looking at car manufacturers' 1983 profits, have adopted the motto "Restore and More in '84," union negotiators acknowledge that the cost of labor still accounts for most of the $1,500 difference between the cost of U.S. and many foreign-made cars.

Organized labor's answer is domestic content legislation, which would effectively penalize imports by requiring that they include certain percentages of U.S. parts and labor. The unions also support additional trade legislation to provide relief for steel, shipping and other industries affected by foreign competition. They oppose executive tariff-cutting authority.

THE INDUSTRIAL policy bills they have supported contain important union protections. Labor representatives would sit on boards empowered to make loans and allocate resources to selected industries. Companies that close plants or transfer jobs would have to pay heavy indemnities to affected workers and communities.

"Labor is putting all its chips on legislative changes to remedy some of its own problems," says G. John Tysse, director of labor law for the U.S. Chamber of Commerce.

Some of those problems were described in a recent AFL-CIO study titled "The Future of Work":

"Technology is changing the structure of the U.S. economy, changing industries and occupations, changing international trade patterns, changing the economic foundations of national power and national security—and also contributing to the nation's labor surplus."

High tech industries, the study said, will not create as many jobs as are being lost in the shrinking smokestack industries, once organized labor's power base. And the new high tech workers are resisting the idea that they need unions.

Recently, in seeking bankruptcy law changes to protect labor contracts, the AFL-CIO said it wanted "the same restraints on employers in hard times that are imposed on unions which seek to modify such agreements in good times."

Other goals that organized labor will pursue are legislation and regulation to block weakening of the Davis-Bacon Act, which effectively requires union wages for all government construction work; more federal aid and higher pay for teachers and federal workers; higher pay for women who are paid less than male workers in jobs of "comparable worth"; and stiff sanctions against employers who hire illegal immigrants.

In this year's political effort, the AFL-CIO will endorse candidates in two thirds of the House races and in nearly every Senate contest. But it will concentrate on tight races—only a dozen in the Senate and fewer than 100 in the House—where it believes it can make a difference in the outcome.

In addition to campaign funds provided by the AFL-CIO Committee on Political Education and individual union committees, the labor federation can offer other weapons to its favored candidates: a computerized list of 14 million union members and hundreds of thousands of volunteer man-hours.

The gamble is that all this activity will result in a Congress and an administration that will help organized labor achieve some of its long-standing aims. □

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WASH/B/7

The Pull of Protectionism

The strong dollar, America's trade deficit and Japanese barriers to imports are straining a relationship.

By Henry Eason

PHOTOS: HONDA—PPI

Steak costs twice as much in Japan as in the United States, thanks in large part to high tariffs. The powerful Japanese farm lobby fights efforts to import more beef—just as American auto workers resist increased imports of Japanese cars.

THE UNITED STATES had a $69.4 billion merchandise trade deficit last year, and a breathtaking $110 billion excess of imports is forecast this year.

Ask the average American the reason for our trade deficit, which could intensify the protectionist sentiment that has taken hold in Washington and across the country, and you are likely to get a one-word answer: Japan.

Is Japan chiefly to blame for our trade imbalance? No, say the experts, America's problems arise from much more fundamental sources than Japanese competition.

The United States, leading the world out of recession, is absorbing proportionately more products from abroad than any other Western nation. Moreover, goods we are selling abroad are denominated in overvalued dollars, making our exports less attractive than those of our world market competitors.

Still, the Japanese are contributing significantly to our trade deficit, both by beating us in important markets abroad and by selling more to us than we sell to them.

American and Japanese trade negotiators are butting heads this year over a wide array of issues, with no clear resolutions in sight. If cool heads do not prevail, friction between two of the world's freest-trading nations could trigger a multinational trade war.

America's position: Japan's export-driven economy must be opened to more imports, its government must stimulate greater domestic spending, and its financial policies must be realigned to give Americans better access to its markets.

Japan's position: Japan is an island nation with few natural resources and it must export to survive. That means its technological revolution must proceed without foreign-imposed impediments to growth.

But thoughtful trade bargainers—led by President Reagan and Prime Minister Yasuhiro Nakasone—are working toward an accommodation.

Since both countries are democracies and therefore subject to the tug and pull of many internal interests, the job will not be easy. In Japan, for example, the politically powerful farm lobby resists attempts to open beef, citrus, tobacco and forest product markets to greater American imports. In the United States, auto workers are just as strenuously opposed to increased Japanese auto imports.

In these and many other industries threatened by imports, the cry for protection is growing louder. It is being echoed in the Japanese Diet, the American Congress and even within some executive agencies of both governments.

The Japanese Ministry of Posts and Telecommunications recently proposed a plan for increased procurement from foreign suppliers in servicing the government-owned Nippon Telephone and Telegraph Corporation. But Japan's Ministry of International Trade and Industry says the plan will actually inhibit foreign competition. Meanwhile, Japanese telecommunications firms complain that the proposal will bring in too many competitors from abroad.

In Washington, two officials who normally are free-trade proponents have recently shown a protectionist side. Reacting to congressional pressure, Commerce Secretary Malcolm Baldrige has proposed sharply limiting machine tool imports, a blow to Japan's

$500 million-plus market here. And Rep. Sam Gibbons (D-Fla.), chairman of a House Ways and Means subcommittee on trade, has shepherded through the subcommittee a bill that would make it easier for American businesses to obtain restrictions against imports they see as unfairly competitive.

"The general feeling in Congress is that if we don't do something to stem the flow of cheap imports, people will be elected who will take that action," says Rep. Ed Jenkins (D-Ga.), a member of Gibbons' panel. "If this protectionist legislation hits the floor, it will pass overwhelmingly."

FOR TOO LONG, some argue, the United States has allowed Japan to take advantage of its special strategic relationship as an American ally in the North Pacific to win undue economic advantages.

Says Commerce Undersecretary Lionel Olmer: "We've heard a little too much about the importance of our overall relationship with Japan and not enough about the nature of the competitive [trade] battle."

Japan's trade surplus with the United States is expected to grow to $25 billion this year—to a great extent because Japan refuses access to many American products whose competitive strength would be as great in Japan as that of Japanese autos, steel and consumer electronics is here. Like America, Japan protects both aging and new industries. Protectionist policies in both countries spell higher consumer costs.

But even the Japanese agree that the United States' trading market is more open than theirs.

In Japan, rising energy and material costs and increasing wage demands have reduced the competitiveness of the petrochemical, aluminum and fertilizer industries—all economic sectors in which American firms are denied the market share they would likely gain under freer trade. Japan also maintains high tariffs against American paper, finished wood, alcoholic beverages and farm machinery, as well as agricultural products.

(Japan recently agreed to double its import quotas for American beef and citrus fruits, but the agricultural sector of the Japanese economy remains highly protected.)

Rep. Ed Jenkins (D-Ga.) warns that Congress could strike out at Japan.

In the newer high technology industries, where American products have an edge, Japan prohibits procurement of foreign satellites. It has proposed limiting copyright protection for computer software—a move that would injure American imports. And it has restricted foreign ownership of telecommunications service industries.

Its undervalued yen promotes exports as effectively as the overvalued dollar dampens imports from America. Barriers to entry into Tokyo's financial markets from abroad tend to perpetuate the weak yen. The government also maintains artificially low interest rates.

Some positive signs have surfaced in the wake of the Reagan-Nakasone summit last November. And American negotiators are pushing on all other fronts.

U.S. Trade Representative William Brock has won an agreement renewing American access to Japan's $3 billion telecommunications market.

Nakasone has proposed a legislative package for expansion of Japan's domestic economy that would stimulate imports. Included are $8.2 billion in public works spending, income tax reductions of $5.3 billion and cutting the Bank of Japan's discount rate from 5.5 to 5 percent.

THE NAKASONE government has announced that it also will accelerate tariff reductions on many goods and lower interest rates for import loans offered by Japan's Export-Import Bank. In addition, it says that Japan will buy more American coal.

Further, it recently proposed to the Diet a legislative package that would expand Japan's financial markets. The legislation would allow the government to issue national bonds in foreign currencies, end restrictions on foreign acquisition of certain Japanese corporations and real estate, and permit the Export-Import Bank to make loans to foreign firms operating in Japan. The pace of these reforms is slower than Americans wish.

Michihiko Kunihiro, economics minister of the Japanese Embassy in Washington, says his nation is "worried" about the lopsided American trade deficit and is taking steps to boost American exports to Japan.

A primary stimulus, Kunihiro says, is fear that "Americans will go toward

How Japanese Leaders Are Encouraging Imports

Japanese industrial and government leaders have developed a wide range of programs and projects designed to counter criticism that their country has raised excessive barriers to imports.

One of the most extensive efforts in that direction is the Japan External Trade Organization, which was created in 1958 to foster exports, but has since assumed broad responsibilities for helping foreign manufacturers enter Japanese markets.

Other activities include the planned 1985 World Import Fair in Nagoya, in central Japan. Foreign countries will demonstrate products at the March 21–April 14 event, and sponsors say it is being held "with the idea of encouraging more vigorous trade between Japan and other countries."

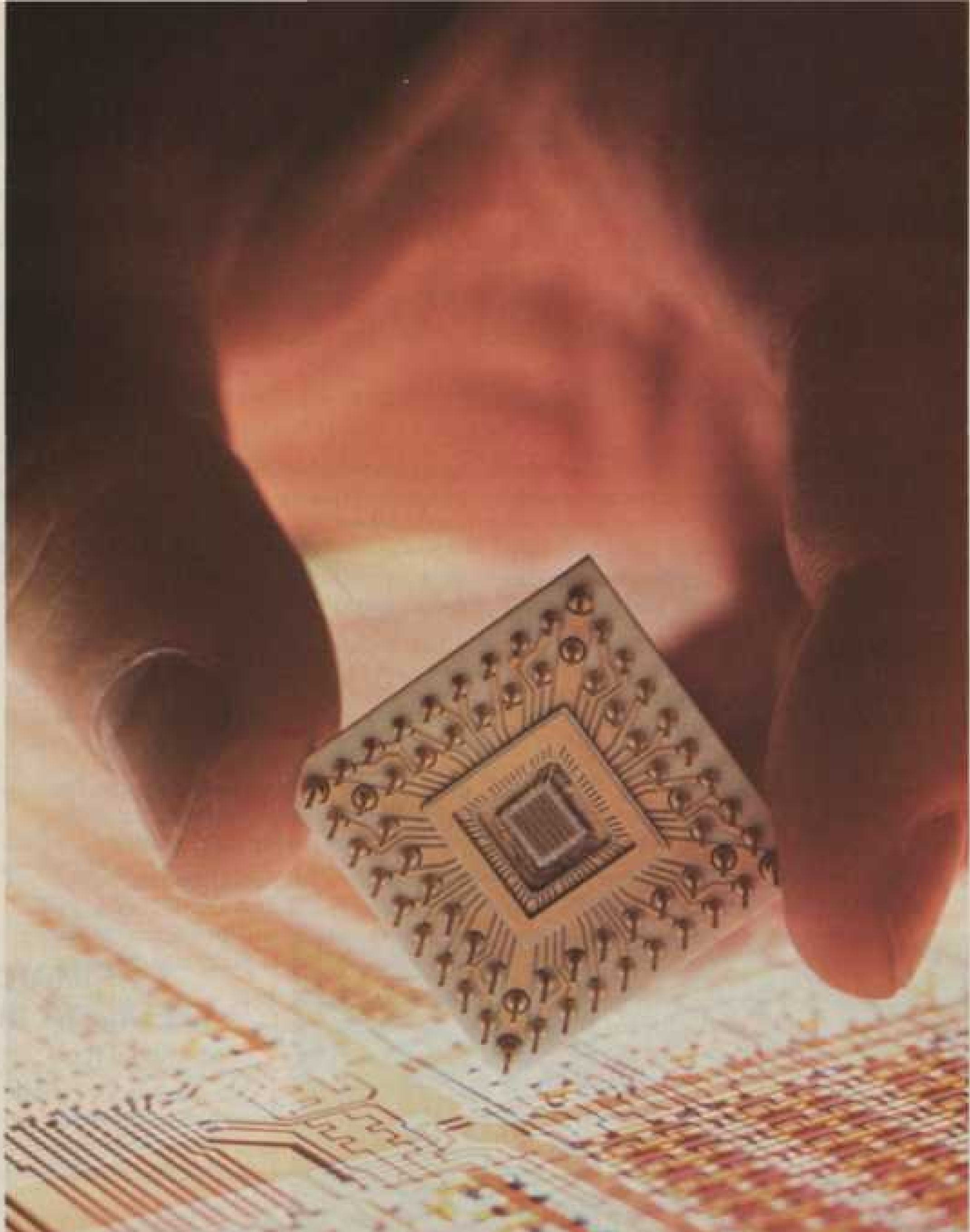
Nagoya is the hub of the nation's third largest commercial and industrial area; Tokyo and Osaka rank first and second.

The nonprofit Japan External Trade Organization has a network of 77 offices in 58 countries to facilitate trade between Japan and those nations.

JETRO's services include publication of an annual directory, *Exporting to Japan*, which lists names and addresses of Japanese importers classified by the commodities that they specialize in or would like to handle.

Another publication lists American-made products along with the manufacturers' names and is circulated in the Japanese business community.

A recent edition, for example, carried descriptions of a wide range of household items that had been recommended by Japanese women living in the United States.



protectionism." If so, he says, "all other nations will follow." And, he points out, "Japan is a trading country."

He cautions, however, that Japan has been slower to emerge from the recession than the United States—and therefore its capacity to absorb exports is lagging.

Kunihiro, as do most Japanese participants in the debate, also points to the United States' overall trade deficit.

"Japan's exports to the United States have leveled off over the past three years," he says, adding that other countries' exports to America have not.

He notes that Japan has been America's only trading partner in recent years to unilaterally restrict its exports—of autos, for example.

Other Japanese industrialists also argue that their country's role in U.S. trade problems is frequently overstated. They point out that U.S. imports last year totaled $260 billion but that only $42 billion, or 16 percent, came from Japan.

While the U.S. trade deficit with Japan last year was $19.3 billion, the overall deficit was $60.6 billion, meaning that two thirds was with nations other than Japan.

The trade deficit with Japan was 22 percent greater that it was in 1981. In the same period, the United States' trade surplus with Western Europe plummeted 85 percent—to $2.1 billion—and its trade deficit with Canada jumped 83 percent, to $12.8 billion.

(A report on trends in U.S. trade relations with Europe will appear next month. Reports on American trading prospects with other regions will follow in subsequent months.)

Ambassador Brock agrees that Japan is not the dominant factor in the deficit problem. "We have less of a trade problem with Japan than we do with Europe," he says.

He also says Japan must be given credit for some flexibility in trade dealings, although he has joined in criticism of the Japanese for not easing restrictions on many U.S. products.

JAPAN ALSO HAS its gripes about the United States. It complains that American traders are trying to "colonize" economic sectors, such as space technology, that Japanese business would like to enter. It sees American efforts to boost food sales to Japan as a threat to its security against international turmoil that could cut it off from American farms. Japan is already heavily dependent on U.S. agriculture—over 20 million acres of American farmland are used to produce crops for Japanese consumption.

Steven Schlossstein, drawing from a decade of experience as a Tokyo-based banker, says in his new book *Trade War*: "Our productivity growth has been the most languid of any industrial country in the postwar era, our product quality has not kept pace with our competitors', our technological advances have slowed, our currency has behaved like a patient in intensive care, our research and development expenditures as a percent of GNP have dropped. . . . We're more interested in money than market share."

These, Schlossstein says, are central reasons for declining American trade competitiveness.

Says Roger Swanson, executive director of the Advisory Council on Japan-U.S. Economic Relations: "Our corporate members note that we must not blame Japan for our problems, and that there is much that U.S. business and labor must do to improve U.S. competitiveness, productivity and an increased export awareness."

As the Commerce Department's Olmer put it recently: "Despite our differences over trade, there is not any relationship more important for the United States than our ties to Japan." □

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The Growing Uproar Over Unitary Taxes

Business and governments protest some states' practice of socking it to multinationals.

INTERNATIONAL Business Machines Corporation recently canceled plans to expand in Florida and said it would sell a 1,800-acre site it had earmarked for a research center there.

Sony Corporation Chairman Akio Morita warned that the Japanese consumer electronics giant may never again invest in California and that continuation of its present operations there is "in serious jeopardy."

The reason for these intense reactions by businesses that offer rich economic-development prizes for states? It is the worldwide unitary tax, which has become the center of a dispute pitting 11 states against many major U.S. and foreign corporations and foreign governments.

When a state levies a worldwide unitary tax—a form of franchise tax—it takes into account not just a corporation's operations in the state but its worldwide operations as well. The tax is calculated as a percentage of the value of the labor, materials and other property in the worldwide operations that support the corporation's activities within the taxing state.

Different national accounting practices and measures of productivity, currency fluctuations, risk factors and language barriers can make the cost accountants' task difficult.

William Dunlap, a tax planning partner of Arthur Andersen & Company, says, "There are more than 100 variables that have to be considered."

In addition to Florida and California, states levying worldwide unitary taxes are Alaska (oil companies are exempt), Colorado, Idaho, Massachusetts, Montana, New Hampshire, New York (oil companies only), North Dakota, Oregon and Utah.

The Multistate Tax Commission, a state tax officials' group, estimates that state taxation of foreign source income produces revenues of $600 million to $700 million a year. Multinational companies opposed to that form of taxation are concerned that more states may turn to it as a politically safe way of raising money without burdening "local" companies.

When Florida wanted to finance an education reform package last July, for example, it imposed a worldwide unitary tax to raise 30 percent of an annual cost totaling $237 million.

PHOTO: CONTAINER CORPORATION OF AMERICA

A California tax on Container Corporation led to a key legal test. The scene is in one of the firm's California plants.

That increase came within weeks of a U.S. Supreme Court decision that effectively gave a go-ahead to the imposition of unitary taxes.

The key case involved a challenge by the Container Corporation of America to California's unitary tax system. The Court ruled that the California method was constitutional if a domestic corporation and its subsidiaries function as a unit—as "a unitary business."

THIS LONG-AWAITED decision galvanized opposition to unitary taxes. Governments of major U.S. trading partners, as well as multinational corporations and business groups like the U.S. Chamber of Commerce, appealed to the White House for corrective federal action.

Legislation had already been introduced in Congress to sharply restrict states' ability to tax foreign-source income and dividends.

Sir Roy Denman, head of the European Economic Community delegation in Washington, commented, "It would be in line with our interests if the administration favored such legislation and pushed its enactment."

Despite pressure from friendly governments and equally strong proposals from his top economic advisers, President Reagan has decided against federal intervention. The administration's position was set forth by John Chapoton, assistant Treasury secretary for tax policy: "It is in the states' self-interest to take voluntary steps to address this problem."

In a Tokyo-Washington videoconference sponsored by NATION'S BUSINESS, Japanese industrialists expressed concern about the unitary tax. U.S. Special Trade Representative William Brock bluntly advised steering clear, when seeking American plant sites, of states that levy such taxes.

The backlash appears to be having some impact. A broad-based citizens' commission set up by Florida to review the impact of its unitary tax has urged its repeal. Reasons cited included the panel's finding that a unitary tax was "a major negative factor with more than one half of economic development prospects."

Florida's governor and legislature are considering the commission's recommendation.

Meantime, a U.S. Treasury Department task force of government and private-sector representatives is trying to work out a compromise, acceptable to the states and to business, that would not require federal action.

The leave-it-to-the-states approach has strong backing among state governments. Those states want Washington to stay out of an issue that involves their right to levy taxes, says Timothy Masanz, staff director of the National Conference of State Legislatures.

And James Rosapepe, a consultant to the Multistate Tax Commission, says that, in the absence of a worldwide unitary tax, many corporations are able to minimize state taxes for extended periods by shifting income to other jurisdictions.

Some analysts believe, however, that more and more states will come to view the worldwide unitary tax as a threat to economic development and, accordingly, a net revenue loser. □

—Peter A. Holmes

Ronald Reagan addresses a videoconference from the Chamber's BizNet studios. With him is moderator Meryl Comer.

Turning America Around

THE PAST YEAR'S STRONG economic recovery vindicated and renewed the challenge by the U.S. Chamber of Commerce to "Rebuild America."

Chamber contributions to the recovery were a cause for pride. Equally satisfying was the accuracy with which the business federation had forecast the year's economic developments.

Administration experts had told President Reagan to expect the gross national product to grow only 1.4 percent. The Congressional Budget Office said 2.1 percent. But Chamber Vice President and Chief Economist Richard W. Rahn, foreseeing the twin effects of tax reductions and lowered inflation, predicted a 3.2 percent rise.

At year's end, when the results were in (3.3 percent), the *Wall Street Journal* observed, "Rahn and his supply-siders called the 1983 recovery almost on the nose." It added, "It's amazing how subdued the former critics [of supply-side economics] have been."

"I am proud of the role of the U.S. Chamber and the business community in beginning the process of turning America around," said Edwin D. Dodd, chairman of the board of Owens-Illinois, Inc., of Toledo, Ohio, and U.S. Chamber board chairman, in a speech last January before the Cincinnati Chamber of Commerce. "The recovery is here, and here to stay, if we can successfully meet the challenges in the coming months and years.

"To this end, it is crucial that the entire business community at the national, state and local levels work together to keep taxes low and reduce them further, to restrain the mounting cost of government, to maintain a stable currency and to resist new attempts to centralize power in the hands of Washington."

Dodd said the U.S. Chamber's economic policies have been proved right by the strength of the recovery. He cited the 1.2 million new firms incorporated during the past two years and the 4 million new jobs created last year alone, the largest one-year employment increase in the nation's history.

The Chamber fought on many fronts against red tape, tax increases and inflated government. The budget fight was one of the toughest.

When it became clear last year that a fiscally responsible budget that relied primarily on spending restraint to reduce the deficit was not emerging, the Chamber for the first time proposed its own federal budget.

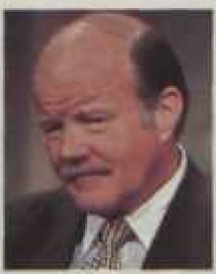
If adopted, the proposal would have led to a balanced budget in 1989 without a major tax increase. It was introduced in modified form in the Senate by Sen. Orrin Hatch (R-Utah) and served as a rallying point to keep a coalition of conservative senators together in successful opposition to proposed massive tax increases.

The Chamber monitored, and lobbied on, more than 100 other issues in Congress, from natural gas deregulation and immigration reform to automobile domestic content legislation and the unitary tax. "We're in the business of influencing public policy," says Chamber President Richard L. Lesher.

With a membership that is up from 50,000 nine years ago to over 200,000 companies, trade and professional associations and local and state chambers of commerce, the Chamber has built a lobbying network in every congressional district in the nation. It has 3,000 congressional action committees that are assisted and coordinated by Chamber field staff in six cities.

Lesher notes that the Chamber's work is made known to the public through its "first-class broadcast and publishing operation."

"It's Your Business," the Chamber's weekly television debate on economic

Secretary of Transportation Elizabeth Dole and James C. Sanders, head of the Small Business Administration, face BizNet cameras.

President Reagan, who has appeared seven times in broadcasts from BizNet's studios, enjoys a pre-videoconference laugh with Chamber executives.

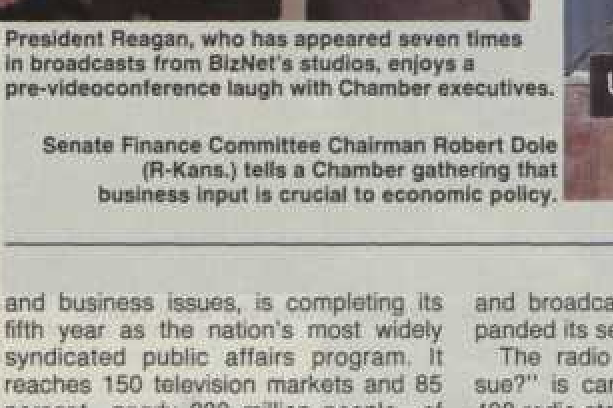
Senate Finance Committee Chairman Robert Dole (R-Kans.) tells a Chamber gathering that business input is crucial to economic policy.

Senate Budget Committee Chairm Pete V. Domenici (R-N.M.) speaks at a breakfast meeting.

Faith Ryan Whittlesey, Wh House aide, gives insig into presidential poll

and business issues, is completing its fifth year as the nation's most widely syndicated public affairs program. It reaches 150 television markets and 85 percent—nearly 200 million people—of the potential viewers in the country.

The Chamber uses a "multiplier effect" to get its message across. With a circulation of more than 850,000 and an actual readership of over 2 million, NATION'S BUSINESS leads all other business magazines. Last year it made major improvements in both editorial and graphic content. The newspaper *Washington Report* was revamped into the *Business Advocate*, a monthly call-to-action for the member grass-roots business community.



"BizNet News Today," a daily television news program, has the potential of reaching roughly half of the country's 84 million television households each weekday morning, through satellite transmission to cable television systems and broadcast stations. It recently expanded its service to the USA Network.

The radio program "What's the Issue?" is carried weekly by more than 400 radio stations.

Besides accommodating the Chamber's own programing, state-of-the-art studio facilities at the Chamber building were used to provide 75 videoconferences this past year. Some of these events are of a complexity and scope that were unheard of not too long ago.

For example, last May a videoconference on trade policy included more than 3,000 executives assembled in 42 U.S. cities; Commerce Secretary Malcolm Baldrige and U.S. Trade Representative William E. Brock in Paris; and President Reagan in the Chamber's TV studio.

More recently, a NATION'S BUSINESS dialogue on Japanese-U.S. trade, featuring Brock and a panel of leading Japanese business executives, employed five different satellites to provide simultaneous transmission in Washington and Japan and to "feed" a third audience in New York. Dialogue was later broadcast by Japanese television and on an American television cable network.

Besides these special events, the Chamber's international outreach extends to 49 American chambers of commerce in other countries and 14 bilateral business councils.

"Resisting trade barriers, expanding access to foreign markets and releasing the productive energy of U.S. private enterprise are the key to vitality in world markets," says Chairman Dodd.

That belief in open trade fueled one of the Chamber's major legislative efforts last year—a campaign to defeat the protectionist domestic content bill (the fight is continuing). Achievements included passage of the Caribbean Basin Initiative, increased support for the Interna-

Getting Out Votes

To marshal hundreds of thousands of additional pro-business votes for the November elections, the U.S. Chamber of Commerce this year launched a voter registration campaign called "Free Enterprise, and Watch U.S. Grow!"

Recognizing that 42 percent of all white-collar employes in American business did not vote in 1982 and that 35 percent were not even registered, the Chamber took the lead and developed a battery of materials to help business people get out the votes. Included are a slide show, a registration guide and a course in practical politics.

Chamber Vice Chairman Van P. Smith says that in the face of massive vote drives by the AFL-CIO and other advocates of big government, "the business community needs to wake up to a major challenge."

Chamber Vice President Richard Rahn (right) greets Commerce Secretary Malcolm Baldrige.

Treasury Secretary Donald Regan addresses the Association Insiders.

Rep. Sam Gibbons (D-Fla.) speaks at the International Forum. And Delaware Gov. Pierre du Pont (right) appears on "It's Your Business."

tional Monetary Fund and making the Export-Import Bank more attuned to small business and the realities of foreign competition. In addition, there has been major progress in the Chamber's efforts to make export control laws more responsive to business.

Among dozens of international leaders who met and consulted with Chamber executives last year were King Juan Carlos of Spain and President Francois Mitterrand of France.

Both domestic and international issues kept Chamber staff busy on Capitol Hill. All told, 379 members of Congress met with 83 of the Chamber's lobbyists, issue managers and officers. Chamber witnesses testified at 105 key congressional hearings.

Legislative victories included repeal of withholding on dividends and interest, which was to start last July; preserving the third phase of the 1981 tax cut; and reauthorizing general revenue sharing. A compromise on Social Security reform was scored as a partial victory. Losses included the first budget resolution and a coal leasing ban.

In addition to House and Senate floor victories, the Chamber lobbied successfully in committees against costly changes in unemployment compensation and workers' compensation. Pending immigration legislation was amended in the House to remove mandatory paper work requirements on employers. Legislation penalizing employers who transfer operations was blocked.

Natural and human resources questions were a major concern. The U.S. Chamber worked together with the Canadian Chamber of Commerce to present their positions on acid rain to both governments. It also worked to ease hazardous waste regulations on small business and helped expand business' role in education and job training.

It grappled with a multitude of tax questions. This year the Chamber is taking the lead in developing a business response to the challenge of tax simplification and reform.

The Chamber again led the way among business groups on regulatory matters last year. It monitored legislative reform of Federal Trade Commission powers, reauthorization of a sensible charter for the Consumer Product Safety Commission and legislation on consumer bankruptcy and business research and development.

The Chamber's work was not restricted to Capitol Hill. Members of Congress as well as cabinet officers and other administration officials visited the Chamber headquarters almost daily for conferences with Chamber specialists, interviews on BizNet and appearances before large audiences at regularly scheduled breakfasts, luncheons and all-day issue meetings.

Research, the Law, Activism

It was a productive year for Chamber-affiliated organizations.

The National Chamber Foundation, a public policy research group, published analyses of product liability reform, alternative tax systems, patent law and the federal minimum wage. It launched other studies on education, immigration, trade policy, the Hispanic business community and commercial uses of outer space.

Congress designated the foundation as the representative of the business community in President Reagan's new Democracy Program. Accordingly, the foundation has established the Center for International Private Enterprise to work with business people of developing nations. Designed to promote the best aspects of democracy, the project will help business people in Third World countries build voluntary business associations and healthy private sectors.

The National Chamber Litigation Center, a public policy law firm, litigated in more than 40 court cases on behalf of business. Fourteen of these cases ended during 1983-84 in decisions protecting business interests.

Citizen's Choice, a taxpayer lobby, sponsored the much-publicized National Commission on Free and Responsible Media, which heard prominent industry, academic and government figures at a series of hearings and will report on its findings this summer. It also worked with Congress to introduce the second phase of a "taxpayers' bill of rights" and promoted tax system simplification.

Distinguished Japanese and Americans speak from Tokyo by satellite . . .

. . . with leaders in Washington. The subject: international trade problems.

France's President Francois Mitterrand (second from left) talks with Chamber board members (from right) Lewis W. Lehr, Edward Donley and Chairman Edwin D. Dodd, and Chamber President Richard L. Lesher.

The President of Bangladesh, Lt. Gen. H.M. Ershad, visits.

Chairman Dodd discusses economic questions with Secretary of State George P. Shultz at the State Department.

There were wins and losses for business in court, too. When the Supreme Court ruled that companies could transfer work from a union plant to a nonunion facility, it was a victory. When the Supreme Court refused to strike down state unitary taxes on foreign income of multinational companies, it was a loss to the business community, one for which the Chamber will pursue a remedy in Congress.

"The activity which surprises people the most, at least abroad, is our litigation activity," Lesher said after returning from a trip to Japan. "Japanese business leaders were astonished when we explained how we sue our own government. But being a 'business advocate' means we really are aggressive on behalf of business."

An important reason for the Chamber's success as a business advocate is that it listens to its members. Through its corporate relations and other activities, it constantly seeks members' opinions and uses them to shape policy.

The Chamber is engaged in a continual effort to build coalitions with other business groups for combined action on emerging issues. During the past year it provided leadership or input to more than 90 strategy groups on issues ranging from exports to private pension controls and environmental exposure to hazardous substances.

It recently opened a self-funding clearinghouse—a central data base—for 150 coalitions across the country that seek ways to contain rising health costs.

The Chamber's Association Department and its Office of Chamber of Commerce Relations serve members of the federation with workshops, publications, special reports and accreditation programs to enhance their own effectiveness.

Education programs for the entire Chamber membership are provided by the Center for Leadership Development. Last year more than 2,000 executives of associations and state and local chambers attended sessions on seven university campuses. Similar courses were given in several Caribbean nations. And several hundred business executives took part in Washington programs that examined the workings of the federal government.

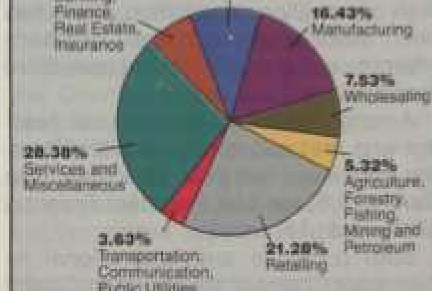
Capital Drive Thrives

The Chamber's three-year, $35 million capital campaign, "The Spirit of Enterprise Fund," raised almost $16 million in pledges and gifts during its first year.

Chairman Edwin D. Dodd and other board members crisscrossed the nation to visit more than 200 companies of all sizes on behalf of the campaign.

The fund is designed to modernize the historic Chamber building, give it state-of-the-art facilities as a meeting place for the 85 business coalitions that use it, enhance the Chamber's growing international programs and maintain financial reserves at a level necessary for businesslike operation.

Chamber Members By Industry



The Chamber's Small Business Center works on broad issues affecting small business and promotes small business legislation, such as reauthorization of the Office of Federal Procurement Policy, reform of spare parts procurement and paper work reduction.

This is an election year, and the election of men and women who support free enterprise is a prime goal of the Chamber. The Chamber's political action committee, the National Chamber Alliance for Politics, expects to endorse some 200 candidates of both political parties before Election Day.

In seven years, NCAP has scored victories in 321 House and Senate races, or 59 percent of its endorsements, most of them in close races.

As Chairman Dodd told business executives attending the Orange County, Calif., Business Outlook Conference last October, "Democracy is not a spectator sport. If America is to obtain and keep low inflation and pro-growth economic

Thomas J. Donohue, group vice president, development, with U.S. Trade Representative William Brock (right).

Lawrence B. Kraus, group vice president, administration, and Clarence Thomas, Equal Employment Opportunity Commission head.

On BizNet: Terrel Bell, Education Secretary (left), and Carl Grant, group vice president, communications.

Richard L. Breault, group vice president, policy (standing, left), and the Environmental Protection Agency's William Ruckelshaus.

policies, we must involve ourselves in electing men and women of principle."

Chamber Vice Chairman Van P. Smith, who is chairman and president of the Ontario Corporation of Muncie, Ind., recently told a free enterprise rally in Atlanta that, to elect candidates who support the free market system, business people must turn out in greater numbers than in the past.

The Chamber's political activity is harnessed to these seven goals for action during the coming year:

- Limit the growth of federal spending.
- Stimulate savings, investment and productivity.
- Create and promote employment.
- Restore the nation's leadership role in international trade.
- Make excessive federal employe pay and pension benefits comparable to those of the private sector.
- Address the emergent issues involving industrial policy and the crisis in education.
- Act to strengthen the role of individuals and businesses in the political and legislative processes.

As the Chamber prepared for its 72nd annual meeting, Vice Chairman Smith said: "We believe that freedom works, that free enterprise works and that people do best when allowed to do for themselves." □

PHOTO: MAX HIRSHFELD

Business community leaders at a time of challenge for America and its economy: Chamber Vice Chairman Van P. Smith, President Richard L. Lesher and (seated) Chairman Edwin D. Dodd.

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Dr. Richard L. Lesher
Chamber of Commerce of the United States

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Van P. Smith
Chairman and President
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Senior Partner
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CSX Corporation

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Central Fence of cny, Inc.

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Eaton Corporation

Cool Down the Right Way

What you do after exercising may save your life.

By Gabe Mirkin, M.D., and Mona M. Shangold, M.D.

ANCIENT HISTORY tells us that the Greek messenger Pheidippides fell dead after he had run more than 20 miles, from the town of Marathon to Athens, to carry news of an important victory over Persia.

Like the unfortunate Pheidippides, people do die from exercising. And as in his case, according to a recent Harvard Medical School study, the most dangerous time may be after—rather than during—exercising.

You can protect yourself by cooling down properly as you complete an exercise session. Cooling down means slowing down gradually—continuing to use your muscles in the same way, rather than stopping abruptly. Its main benefit is to your heart.

When you exercise, your heart must pump large amounts of blood to bring oxygen to your muscles and carry the heat produced by the muscles to your skin, where it can be dissipated. Your leg muscles serve as a "second heart," helping to move blood through your body. When these muscles relax, the veins near them fill up with blood. When they contract, the muscles push against the veins to squeeze the blood up toward your heart.

If you stop exercising suddenly, when your leg muscles relax the blood may pool in your legs instead of being pushed back to your heart. Your blood pressure may drop, and enough blood may not reach your brain. You may feel dizzy and even pass out.

To help raise your blood pressure so that more blood will flow to your brain, your body produces large amounts of its own natural stimulants, such as adrenaline and noradrenaline. These stimulants cause the blood vessels to constrict, forcing blood out of the legs.

They can, however, also cause a weak heart to beat irregularly and stop pumping blood to your body; you could have a heart attack. If you have a strong heart, it will continue to beat regularly and do the extra work of pumping blood back to your brain.

The best way to cool down and protect your heart is to slow down gradually for a few minutes before you stop exercising.

For example, if you are pedaling a stationary bicycle at 15 miles an hour, slow down to 10 miles an hour for 30 seconds, then to 5 miles an hour for 30 seconds and then to 2½ miles an hour for 30 seconds. The same principle applies to jogging, skating, cross-country skiing and any other sport you do on your feet.

Although cooling down protects your heart, warming up protects both your heart and your muscles.

Warming up means raising the temperature of your muscles from around 98 degrees Fahrenheit to more than 100 degrees (the rest of your body will get warmer, too). This makes your muscles more pliable, so that they are less likely to tear.

Although young children are pliable enough that they can usually exercise cold muscles without injuring them, most middle-aged adults cannot get away with this. Our muscles lose their elasticity with age.

WARMING UP also permits the muscles to contract with greater force, so that you can run faster, lift heavier weights, throw farther and jump higher. And it widens the blood vessels on the surface so that more blood can flow to the heart. This makes it less likely that the heart will suffer from lack of oxygen, which can make it beat irregularly.

Stretching is not the same as warming up, because stretching does not cause your muscles to produce heat. Although stretching does help prevent injury to your muscles by making them less likely to tear, it does not offer protection to your heart.

You can warm up your muscles in a sauna or hot tub or by doing calisthenics or any other exercise. But these methods do not increase the flow of blood to your muscles as effectively as does beginning, at an unhurried pace, the same sport that you are going to do more vigorously. The best way to warm up for jogging is to jog slowly. The best way to warm up for tennis is to volley leisurely. Warm up until you just start to sweat. That means that your temperature has risen and your heart and muscles are ready for more strenuous exercise.

If only poor Pheidippides had known these things. □

PHOTO: T. MICHAEL KEZA

To cool down, slow down. For example, gradually cut your bicycle speed to 2½ miles per hour.

GABE MIRKIN, M.D., *is the author of* Getting Thin *(Little, Brown & Company).* MONA M. SHANGOLD, M.D., *is assistant professor of obstetrics and gynecology at Cornell University Medical College.*

Making A Partnership Work

Critical decisions must be reached before you go into business together.

By David H. Bennet

STARTING A NEW business is always an adventure into the unknown, and few of us want to go it alone. And so we are faced with the question: "Should I have a business partner?"

There are, of course, pros and cons. The wrong partner can become the albatross that drags your company down or stunts its growth. He or she can even send it to ruin. In one recent study of 170 small businesses started by partners, more than two thirds broke up, often because of the partners' changing interests or personal conflicts.

So why have a partner at all? Why not do it all yourself—borrow the money from investors, friends or a bank and thus keep the maximum amount of equity in your company?

My own experience as one of four partners in an engineering and management consulting firm, Dynamic Systems, Inc., has convinced me that there are good reasons for seriously considering partners—even though you pay a price in less equity and control.

The biggest advantages: You lower your own risk and required investment; you share the burden of decision making and benefit from the strengths of each other; and you add one or more cooperative, hard-charging members to your team—members as highly motivated as yourself.

Most people are not smart enough by themselves to make all the decisions in a company in a way that maximizes its health and financial strength. We all make mistakes and lose perspective from time to time. A partnership provides an open forum for proposing, analyzing and defending potential decisions, filtering out possible mistakes. This kind of debate is not easy to achieve in an organization where there is one owner and everyone else is an employe.

DSI's 40 percent annual growth (to $7 million in annual revenues and 160 employes) in the last six years has shown us that two or more partners working effectively together can take a company further, faster, than one person going it alone. The return on investment from this kind of growth often offsets an individual's smaller equity in a partnership.

Having a partner can also reduce stress because each knows there is at least one other person who is equally concerned about the welfare of the company. So, if your partnership works well—that is, if trust, cooperation and competence are present—you can go on vacation secure in the knowledge that someone is looking after your interests.

When my partners and I first considered forming DSI, we went to a banker friend for advice. He identified what I believe to be the most critical factor in determining the success or failure of a new business.

"A partnership is very much like a marriage," he told us. "As you work with each other, you will get to know each other's strengths, limitations, idiosyncrasies, goals, values, skills and behavior patterns. How well these human characteristics complement or conflict with one another and how much they help or harm a young company are the often-hidden forces that heavily influence long-term success."

We have found the banker's comments to be right on the mark. In our case, those human factors worked in our favor. But not by accident.

CERTAINLY THE KEY to a successful partnership is choosing the right partner to begin with. Next most important: making the major decisions that define your business and its "corporate culture" *before* you open your doors. And, just as in a good marriage, you have to work at the relationship in a conscious, consistent way to be sure the partnership's goals are achieved.

Here are some guidelines, based on our experience, that I suggest to others who are thinking of going into a partnership:

• When choosing partners, do it with the long-term health of the company in mind.

It is not enough to select someone because of the need for financial investment, marketing contacts or other specific requirements. You must consider the values of all participants and even the "chemistry" among you.

Many basic values are not uncovered without conscious effort. For example, the level of acceptable risk varies widely among individuals; yet, when company decisions are made, all partners are subjected to the same degree of risk and reward. If one individual is looking for minimum risk and is willing to accept a minimum return, while another partner desires a fast, hefty return on investment and is willing to take high risks to get it, the partners are headed for conflict.

Look not only for professional competence but also for abilities and strengths that complement—rather than duplicate—your own. Suppose one

DAVID H. BENNET *is a founding partner in Dynamic Systems, Inc., an engineering and management consulting company in McLean, Va.*

...gning a lease on a new headquarters: ...ynamic Systems partners (from left) ...obert E. Einzig, R. Kenneth Misner, George ...W. Kenaston and David H. Bennet. ...ey share power equally, so their business ...rds simply read "corporate director."

individual is good at financial management but weak in dealing with employes, while the other has a natural instinct for human relations and employe motivation but spends money without concern for cash flow and cost savings. It is obvious which responsibilities each should have in the corporation—and where each should yield to the other's strengths.

Assess a potential partner's ability to communicate. Communication is the sharing of understanding, and it requires a similarity of outlook and a willingness to listen and see the other person's point of view. It has to be efficient, open and straightforward. And, for the company to operate smoothly, all partners must communicate the same view of the company both to employes and to the outside world.

• Take time to know each other well. A great deal of discussion should go on—discussion that deals with both the long- and short-term goals of the individuals and the fundamental values that affect how each partner views the world, makes decisions and reacts to threats and opportunities.

My partners and I had all known each other from 1½ to 8 years before we began to talk about forming our corporation. We already knew we had good rapport. We also had a high regard for one another's professionalism: the ability to communicate, to accept responsibility, to get things done and to have open disagreement and still respect one another.

Even so, we took another year, meeting as often as once a week, before we actually incorporated our business. We used this "courting" period to be absolutely sure we all had a similar vision of what we wanted our company to be—that is, what kind of corporate culture we wanted to create.

Ultimately, we decided we wanted a company that would be known for its integrity, its fast response and its competence. We felt that those characteristics matched the needs of the marketplace and that, with them, we could outperform our competitors.

• Establish, ahead of time, the ground rules under which you will operate.

We spent a significant amount of time talking about how we would make decisions. Determining how we would handle basic issues was easy—we agreed immediately, for example, that we would do nothing illegal. But what about the gray areas? For example, how strongly did we value our independence over our cash flow?

Not long after DSI was founded, a private firm offered us $25,000 to evaluate a system developed by the firm and used by the federal government. As we talked with the firm's representatives, we learned that they wanted to have the last say in the report—to change a few words here and there if they did not agree with our findings. But the study was still to be published under our name.

At the time, we had only six employes, and $25,000 was a big chunk of money. But if our client was to have the final word, we knew our study would no longer be independent. We turned the contract down because we insisted on maintaining our integrity as a corporation.

Had we not talked about such a possibility the year before we started the company, there could have been some strong differences of opinion and some very fundamental problems for our partnership.

As it was, we were united in what our company stood for. And when the test came, we passed it. We were not just *talking* about integrity; we were willing to back our decision by turning down money.

Our discussions also led us to determine that corporate decisions would be made by majority vote. A 2-2 split would count as a negative decision, because it meant we would do nothing.

Among the other ground rules should be agreements on what the equity will be and who will run the company.

We decided on equal shares because we wanted to create an environment in which if one person was successful, everybody would be successful, and if anyone had problems, everybody would suffer. We wanted to have absolute assurance that we would all cooperate. We aimed for a situation where it was all for one and one for all in the classic sense.

We rotate all corporate offices, taking each role—president, vice president, treasurer and secretary—for a year. This enables all of us to learn the critical skills in each major area. Titles really exist to help us deal with the outside world. Our business cards say only "corporate director," and we share power equally. We want to prevent the normal psychological situation in which a person begins to think he is smarter than anybody else if he has more authority.

• Keep your spouses informed, and be aware of their expectations.

Like so many entrepreneurs before us, we all had to put our houses on the line—and so, of course, did our wives. We felt it was their right to know what the risks were, because they, too, would have to live with the consequences.

We also needed to be sure one spouse did not expect to get rich quick while the rest of us were committed to long-term growth.

We wanted our wives to be comfortable with what we were doing, and we wanted to be sure their aspirations were the same as ours.

We have found it useful to have dinner as a group every six months or so,

We aimed for a situation where it was all for one and one for all.

spending two or three hours talking about the business with our wives. Each partner discusses his area of the business so that the wives have a complete understanding of the status of the business.

• When your business is off and running, you and your partners should continue to nourish your relationship.

Keep working at getting to know one another even better. Keep trying to improve your communication skills.

One way to help accomplish the first goal is for the partners to meet for two or three days away from the office, to talk about the business. We did this every six months in the early years. Now we do it annually.

Even when you know each other well, you should be sensitive to how you communicate.

When disagreement occurs, make sure everyone focuses on the good of the company. Avoid antagonizing or running down another individual. If one partner "wins" by outperforming another or by running him down, that hurts the organization. And hurting the organization hurts every partner. □

To order reprints of this article, see page 73.

Moving Out of the Dorm And Into the Money

Brad Baker dropped out of college after one year, suffers a meager social life, admittedly knows little about business and lives in the slow-paced environment of a retirement community.

To compensate, he became a millionaire last year, at age 23.

He sells, manufactures and maintains computers and software, in Nokomis, Fla., a few miles south of Sarasota.

"I learned early that if I had any company, even one selling garbage can covers, I would succeed if I worked harder than my competitor," he says.

And that he does—in the office at 7 a.m., not out until 11 p.m. Weekends, too.

Sara Tech Electronics Company, of which Baker is president and sole owner, was founded seven years ago in his dormitory room at the University of Michigan. An electronics whiz who at 15 was programing in several computer languages, he sold computers out of his room to pay tuition. But the room proved too small as a warehouse. So Baker quit college and moved his business into his mother's living room in Nokomis.

"I expanded into the kitchen, then soon was heading down the hallway toward my mother's bedroom," he recalls. "That's when she threw me out, more or less."

PHOTO: ERIC MENCHER

His firm's new computerized time clock could put payroll departments out of business, says Brad Baker of Sara Tech Electronics Company.

Shirley Baker was not keen about her son's business. "She wanted me to become a doctor," he says. She made him buy a building for his company and then looked forward to the enterprise's fading. "She hoped that when I went out of business, I could sell the building, take the money and go back to college."

It didn't happen. Instead, his mother became Baker's executive secretary. She still is, confiding that she stays around because her son is "a good boss." She also is sorely needed. Last year, Sara Tech Electronics and a subsidiary, Computer Centre, ran up sales of $2.5 million.

"We sell some 25 brands of computer systems," Baker says, "with about 70 percent of sales in hardware and the balance in software."

Most of his sales are from walk-in traffic at Computer Centre stores in Nokomis and Bradenton (north of Sarasota), but Baker does a brisk overseas trade. Under contracts with the United Nations, for example, he supplies developing countries with computers and software. He also has contracts with the National Aeronautics and Space Administration and more than 100 colleges and universities.

Such entrepreneurial success is not solely a matter of education or a high IQ, although Baker's is above 130.

He went to a special school where most of his classmates had IQs around 150. "We were taught that to be successful was merely a matter of education," he says.

"Yet I saw that when my friends graduated, they did not become the most successful because they had no goals, no discipline. They had never been taught to work.

"Besides, the successful people, I find, are those who can communicate, who can get other people to understand what they are thinking—and who give it all they got, who don't quit."

Baker, who has 32 employes, will soon open two more Computer Centres. But what truly excites him is a computerized time clock his firm has created and will market this year. It enables an employe to punch in and out with a card similar to a bank's automatic teller card. "At the end of the week," Baker says, "it totals up a person's hours and prints the check, making all the proper deductions."

The unit will cost $1,500 and plug into most major computer systems. It could eliminate a firm's payroll department.

Any risk involved in manufacturing and selling such a new product does not worry young Baker. "I started out with less than $5,000," he says. "In fact, I financed myself borrowing money from the 24-hour bank teller and then paying it back later that same day before it would bounce in the account.

"Now, my two brothers, they really can't go into a business and take risks. They are married with families. If they failed, they would lose everything.

"But with me, if I fail, I'll just go back to school and become a doctor."

His mother would like that.

—Del Marth

Earning Their Belts As Promoters

Judy Quine thought her husband was nuts when he told her he wanted to start a whole new sport: full-contact professional karate.

The Beverly Hills couple had long been involved in the entertainment industry. Judy is the daughter of Barney Balaban, who headed Paramount Pictures for 30 years. Don, an actor who appeared regularly on TV in "Peyton Place" and "The Virginian," also wrote

PHOTO: PROFESSIONAL KARATE ASSOCIATION

With no athletic background, Don and Judy Quine formed the PKA, which sanctioned 300 events in 1983.

screenplays and produced and directed.

But neither could boast any athletic background when, by founding the Professional Karate Association, they began promoting a sport that combines the power of boxing with the finesse and skills of martial arts.

Don's three sons from a previous marriage sparked the Quines' interest in karate in the early 1970s, when the boys were taking self-defense lessons. The family attended several semicontact tournaments in which competitors only sparred and exhibited their skills.

"I was attracted to karate, but as a fan, I wanted a clear way of knowing who was winning and why," recalls Don, 45.

In 1974, Universal Pictures contracted with ABC-TV to produce a world championship karate program at the Los Angeles Sports Arena for ABC's "Wide World of Entertainment." But, according to Don, 10 days before the tournament little had been organized.

A promoter for the project came to the Quines for help with ticket sales, advertising and production—"in other words, everything," says Don. Despite the tight schedule, the event drew a live gate of over 12,000 fans—and high television ratings.

With this success to their credit, the Quines made plans for what Judy, 51, calls their seventh child (she has three daughters by previous marriages). They researched karate and developed a set of regulations and a group insurance plan.

Don came up with the "minimum kick requirement": Pro fighters must attempt at least eight kicks above the waist per round (six for amateurs). This innovation took karate from limited sparring to full contact, where the objective is to knock out the opponent. (The PKA's motto is "safety first," and thus far, there have been no serious injuries in a PKA-sanctioned event.)

With about $125,000 of their own money, the Quines launched the PKA in 1975. As board chairman, Judy takes charge of contracts and negotiations. Don, as president, handles expanding and strengthening the business.

In its first year, the PKA netted $100,000 from only two events. The money was immediately fed back into the organization. Last year, the PKA sanctioned more than 300 events in the United States and Canada. The Quines have also taken PKA events to England, France, Italy, Germany and Monaco.

Cable network ESPN airs weekly PKA programs; the Quines' 1984-85 contract calls for the PKA to receive over $2 million. And now the PKA is venturing out of the ring into other areas, licensing the PKA logo, through King Features Licensing, for items ranging from sportswear to toys.

The Quines expect to build stars in the PKA. They hope to eliminate a talented fighter's frustration at spending years perfecting his skills and traveling to tournaments, only to win "barely enough to pay for air fare," says Judy.

Do the Quines themselves now have karate belts? Don replies that he has made it only as far as a blue belt, about halfway to the coveted black belt. And Judy? Looking down at her belted skirt, she jokes, "I'm a mesh belt."

—Nancy Croft

Fortunes Revived By a "New Toy"

Birdview Satellite Communications, Inc., seems a fitting name for the company founded by Charles A. Ross three years ago. The Chanute, Kans., firm makes an earth-station system that allows customers in isolated areas to view a wide variety of television shows via satellite.

A mythical bird might have been even more appropriate: phoenix—the bird that rises from the ashes. Bud Ross, 43, rebounded from bankruptcy to start the company, which already has customers in 41 states and expects its sales to jump to $25 million in fiscal 1984, up from $13.3 million in the last fiscal year.

Ross' career as an entrepreneur began in his family's garage in Overland Park, Kans. After playing guitar for a rock-and-roll band for three years, he started Kustom Electronics in 1963 and "ran it for 32 straight quarters without losing money," he says. Ross moved the firm, which made guitar amplifiers, to larger quarters in Chanute and broadened its line to include public address systems, traffic radars, police car computers, drums, portable organs and equipment to test aircraft radios.

Named Small Business Person of the Year for Kansas in 1968 by the Small Business Administration, Ross was flying high. The trouble was, he jokes, "I read all of those [news] stories and believed them." He founded eight other companies making such diverse products as boats and high-speed printing presses.

"People started coming to me with ideas, and I started putting up the dollars," he explains. Before long, he admits, "it had gotten totally out of hand. It was physically, mentally and financially more than I could go through."

In 1973, Ross, who had once spurned a $10 million takeover offer for Kustom, was forced to sell the business and liquidate his other assets to pay his debts. He went bankrupt—and was divorced—the following year. He remarried in 1975 and moved with his new wife to Colorado. "She worked, and I cleaned house," he says. "I could go into the beautiful mountains and not worry about business."

But by 1977, Ross was ready to take on the business world again. He returned to Chanute, dabbling in several businesses, until he spotted an item in the 1980 Neiman-Marcus Christmas catalog: a private satellite-receiving station for $12,500. He was hooked. "I read night and day," he recalls. "I had me a new toy."

Ross became convinced he could sell a comparable system for far less. He incorporated Birdview in March, 1981, and offered stock in November.

By the following May, the new firm was turning out its product for a suggested retail price of $2,995: a complete earth-station system with a satellite receiving dish, the mount to hold the dish, a low-noise block-down converter (which amplifies signals and converts them to the proper frequency) and a station selector.

Using the equipment, viewers can pick up signals via any of 12 satellites orbiting the earth, including signals from "super stations" in large cities. They also can pick up the signals of paid-subscriber companies like Home Box Office—and that has Birdview and

PHOTO: KANSAS BUSINESS NEWS

Bud Ross' satellite dishes measure 9 feet across. The low-noise block in the center converts signals to the proper frequency.

similar manufacturers in a legal bind.

Birdview does not want to "pirate" pay-TV signals, says Ross. In fact, it encouraged its customers to send checks to the pay-TV companies whose programing they watch. But when they tried to do so, their checks were returned with warnings that they were not authorized to watch the programs.

The legal question is one the earth-station industry is watching. One possible solution, says Robert E. Owens, Birdview's executive vice president, would be for the pay-TV firms to scramble their signals and then sell decoders directly to satellite-dish owners.

Birdview, which now employs 300, thus far has shipped about 12,000 systems, mostly for rural customers, and hopes to ship 25,000 in the coming year.

Its strengths, say Ross and Owens, are that it is one of the most "vertically integrated" companies in the business—selling complete systems, not just parts—and that it has a solid network of 700 independent dealers.

Meanwhile, Bud Ross' fortunes have come full circle: He was recently named Executive of the Year by *Kansas Business News* magazine and was 1983 chairman of S.P.A.C.E., a Washington-based earth-station industry organization. "If God ever prepared someone to do something," he has told his wife, "he prepared me to do this."

—Susanni Douville Wendell

An Instant Winner With Staying Power

Linda Enke is one of those rare people who have been instant successes in the business world. She also is one of those less rare business people who have known failure. But she is back on the winning track with a marketing organization that specializes in the design and manufacture of apparel for product promotion.

When she was 19, Enke applied for a job as a cashier at a Mankato, Minn., department store. She was hired instead as the women's wear buyer.

She fell in love with New York while on a business trip and elected to stay. She worked seven years for Montgomery Ward's apparel buying office, in buying, marketing and management. "The sales increases were 50 to 60 percent on whatever I was merchandising or selling," says Enke. "I developed a keen sense of being unable to do anything wrong. I thought I was a hotshot."

A marriage took Enke to Buffalo, where she started a "trendy" store that sold art and plants. It was a hit its first year and nearly drove its rivals out of business, she says.

Enter failure. The second year, Enke's venture was undone by her main competitor, who lured customers back with a spiffy new greenhouse. Being put out of business was humbling, and Enke vowed never to let it happen again. The marriage over, she returned to New York to start another business, this time in her specialty—clothing.

Backed by a small group of suppliers and clients, Anne Rothschild & Company was born in 1982. ("Anne" is for Enke's middle name; "Rothschild" was chosen for the stability she thinks the name conveys.) Enke was confident that she could produce garments tailored to a company's specific promotion needs at less cost to the company than if it bought name-brand clothing for the same purpose.

Enke, 35, sees apparel as an effective tool in promotion because "clothing is very personal to people," and the personal attachment to the clothing extends to the product it represents.

Linda Enke started as a buyer for a department store. Now she owns a marketing firm and looks to $50 million in sales.

Enke's company developed lingerie for Caress soap, whose theme is "Caress before you dress." Consumers can buy the undergarments at a reduced price when they send in Caress proof-of-purchase seals.

In a program for Stayfree, Enke combined the athletic image of gymnast Cathy Rigby—the product's spokesperson—with the "overnight" in the product's theme, "overnight protection." Result: a rugby-striped sleepshirt advertised in Sunday newspaper supplements. Enke's other major clients have included Avon, Philip Morris, Clairol, Aramis and Villa Banfi Wines.

Anne Rothschild had only two employes when it generated $10 million in gross sales in the first year. Now, with nine employes, Enke expects the firm to exceed $50 million by 1985.

The future? Enke is trying to build public recognition of the Anne Rothschild label and hopes to license it someday or make products for sale directly to consumers. She would also like to acquire a sales promotion agency and an advertising agency.

But for now, she has applied to both Columbia University and the Wharton School at the University of Pennsylvania to study for an M.B.A. She wants to be what she calls a "corporateur," planning and managing the expansion of her company. And she thinks an M.B.A. would help her do that.

"It's very common to do too many things too fast, spreading yourself too thin," she says. "You've always got to keep your eye on what's happening and what can happen tomorrow, and not get caught up in immediate success."

—Nancy Croft

PHOTO: PAUL SETTERS

Where I Stand

1. Project Votes Before Polls Close?

The one universally sacred rite in our secular society is the act of casting a ballot. And a fast and unimpeded flow of information aids in the performance of this rite. But not always.

In recent elections, broadcasting networks' outcome projections—based on interviews with voters leaving polling places—have led some citizens to abandon plans to cast ballots. Why bother to vote, they asked themselves, if the outcomes were not in doubt?

Many people, especially Western politicians, were angry in 1980 when television proclaimed Jimmy Carter a loser while congressional races were being decided.

Some states have imposed restrictions on exit interviewing, prohibiting questioning within 300 feet of polling places. Some proposals have called for banning vote projections before the polls close, and others have called for a voluntary prohibition.

Network news executives argue that they have the constitutional right, and a responsibility, to make known to everyone immediately the trends already available to political insiders.

Should broadcasters project election outcomes before polls close?

2. Pursue Offshore Oil?

With William Clark's replacement of James Watt as Interior Secretary, the level of controversy over offshore oil leasing has receded. But environmentalists continue to see such leasing as a threat.

Those who favor the leasing say it is required if we are to achieve higher living standards and avoid undue dependence on foreign oil suppliers. They argue that environmental dangers—cited ever since a 1969 oil spill in Santa Barbara, Calif.—are greatly exaggerated. Petroleum experts say such an occurrence is a once-in-a-lifetime event.

Watt was criticized for a plan to offer for lease the entire 1 billion acres of the outer continental shelf under federal jurisdiction. Under environmentalists' pressure, Congress sharply reduced the area available for drilling.

Clark has provided for more public hearings and, in compromise decisions, has eliminated or narrowed some drilling sites. Despite these concessions to environmentalists, there are moves in Congress to further restrict leasing for these projects, which provide jobs as well as produce petroleum.

Should the United States lease offshore land for oil drilling?

3. Continue Credit For Training?

To address the need for retraining low-skilled workers for jobs with a future, Congress in 1978 created the Targeted Jobs Tax Credit.

The program allows employers to claim a tax credit of up to $4,500 for each worker hired from one of nine target groups. Workers eligible for the program include those Vietnam veterans and self-supporting youths considered "economically disadvantaged," people on welfare and individuals in vocational rehabilitation. The program is intended to encourage companies to hire such workers, who often have difficulty landing jobs.

Authorization for the program expires at the end of December. The Reagan administration has proposed renewing the tax credit for one year. Several members of Congress have cosponsored a bill for a five-year extension. Congressional leaders concerned over the federal budget deficit are reluctant to push a program that would cost the Treasury $3.5 billion over five years. Opponents also point out that less than 5 percent of those eligible for the plan have been hired.

Should the Targeted Jobs Tax Credit program be continued?

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Verdicts on OSHA, Development Bank, South Africa

Readers took clear stands on the three Where I Stand questions in the March issue: Should OSHA's primary role be policeman? Should the United States create a national development bank? Should U.S. business in South Africa be restricted?

A large majority of respondents took the con side on all three questions. Readers expressed a desire for the Occupational Safety and Health Administration to consult with business rather than act as a policeman. Nearly 9 of 10 readers opposed the creation of a development bank as part of a national industrial policy. Also opposed was a move in Congress to impose mandatory racial equality standards on U.S. firms' operations in South Africa, replacing an existing voluntary system.

	Yes	No	Undecided
1. OSHA	11.8%	83.7%	4.5%
2. Development Bank	9.0	87.1	3.9
3. South Africa	11.6	79.8	8.6

More than 1,600 readers took part in the poll. Results will go to appropriate government decision makers.

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Small Firms Are Big in Biotech

They are revolutionizing health care and other fields. But can they meet the challenges of marketing?

By James David Spellman

AMERICA LEADS the world in biotechnology—the science of life, as it is called, which promises developments ranging from more productive species of wheat to cures for cancer and the common cold to the mining of minerals with bacteria.

And small business leads America. Some 400 firms, each with fewer than 100 employes, are behind the dizzying pace of biotech research and development.

Cambridge BioScience Corporation of Hopkinton, Mass., is one example. The 20-employe firm is working on the diagnosis and prevention of human and animal diseases, using genetic engineering and other advanced technologies.

By 1985, the company plans to market products that detect and control the human T-cell leukemia virus, suspected as a cause of cancer and as a contaminant of blood used in transfusions. Also in development—for Virbac, a French veterinary concern—is a vaccine for feline leukemia virus, which infects millions of cats in this country.

Working in both the human and the veterinary health care fields helps the firm stay ahead, says Rod Raynovich, vice president for business development. "Discoveries in animal diagnostics and prevention have implications for humans, and vice versa," he explains.

Another key factor, he adds, is size: "A giant company is like a large ship in the ocean—it maneuvers slowly. We're able to mobilize and maneuver faster, and our overhead expenses are lower."

JAMES DAVID SPELLMAN *is a Washington-based free-lance writer.*

The role that Cambridge BioScience Corporation and other small entrepreneurs are playing in the biotech revolution mirrors a general pattern in the nation's economy of innovation and job creation by small business.

Major industrial companies have, of course, broken some biotech frontiers in pharmaceuticals, energy, agriculture and chemicals. But their role has primarily been to seed "bioventures," as small biotech firms are often called, and then to produce and market what the bioventures develop. Here's what large companies are doing:

- Underwriting bioventures' research and development costs in exchange for first-refusal rights to exclusive manufacture and sale of resulting products. (Such R&D contracts, it is estimated, totaled $500 million last year.)
- Buying raw materials, equipment and services from small firms to support the bioventures' own research and production.
- Buying equity in bioventures, usually guaranteeing the management's independence.

Venture funds—mutual funds that invest mostly in new high tech companies—and public offerings of stock have also provided capital for the biotech firms. Between March and July of last year alone, 23 bioventures raised about $450 million through equity sales.

These investments are financing efforts to copy and modify biological processes and substances. Scientists are going beyond traditional biotechnology—which includes fermentation of wine and development of new animal and plant species through mating—to decipher the codes of life.

Bacteria, for example, have been developed to produce outside the body the same human substances that are used to defend the body against diseases. Hormones that can influence the growth of cattle and chickens have been created in test tubes.

BIOTECHNOLOGY'S commercial promise is staggering. Predicasts, a Cleveland-based business information and research firm, estimates that products developed through biotechnology will constitute 26.6 percent of the $70 billion health care products market by 1995. And annual sales of agricultural products created through gene splicing—changes in the genetic material that determines a cell's function—may reach $90 billion. Congress' Office of Technology Assessment projects world sales of hormone growth products for animals alone at $515 million next year.

As the biotech industry races from the research to the commercial stage, small firms' importance in the biotech field may diminish. But industry analysts are divided as to whether the first battle—for the pharmaceuticals market—will end with many small firms as casualties.

"Almost all of the companies are

At one small "bioventure," Cambridge Bioscience, researchers like Richard Respess (left photo), Karen DeBell and Gerald Beltz are pushing back frontiers.

PHOTOS: CAMBRIDGE BIOSCIENCE

Immunologist Richard Thorn, with pointer, leads a discussion at Cambridge Bioscience of how genetic engineering can aid disease diagnosis and prevention.

working in the same areas and will end up with the same products—like tissue plasminogen activator," a substance that dissolves blood clots, says June Jessup, a research assistant with E.F. Hutton in Washington. "Many small firms will inevitably be beaten out because they lack the marketing expertise and cost efficiencies needed to survive in a crowded market." Jessup forecasts a wave of mergers and acquisitions among small firms.

Others argue that those bioventures heavily dependent on the established companies face uncertain futures. Profits from their royalties will be inadequate to sustain the growth required to diversify revenue sources. Research contracts will dry up as corporations like Monsanto and du Pont expand their in-house facilities.

Samuel H. Ronel, president of Interferon Sciences, Inc., of New Brunswick, N.J., sees a different future. "The worst—the 1982 recession—is over, and most small firms have weathered this period," he says. Ronel argues that the fledglings will survive because the "big outfits realize that it's in their interest to protect the key inventors, the small firms."

Big firms "are starting their own biotechnological research, now that they see the potential," says Bruce F. Mackler, general counsel to the Association of Biotechnology Companies, formed last year to represent the small firms. "But they'll continue to keep their hands in all ventures and back the small companies to see which offer the best potential."

Ultimately, concludes an Office of Technology Assessment study, the survival of the bioventures is tied to "their ability to enter the newly developing product markets."

OTA says new biotechnology firms "must manufacture and market their own products not only to generate sufficient revenues to fuel growth but also to be in control of the timing of their own product introduction."

SOME BIOVENTURES already are directing some of their creative zeal away from the labs and into marketing and production.

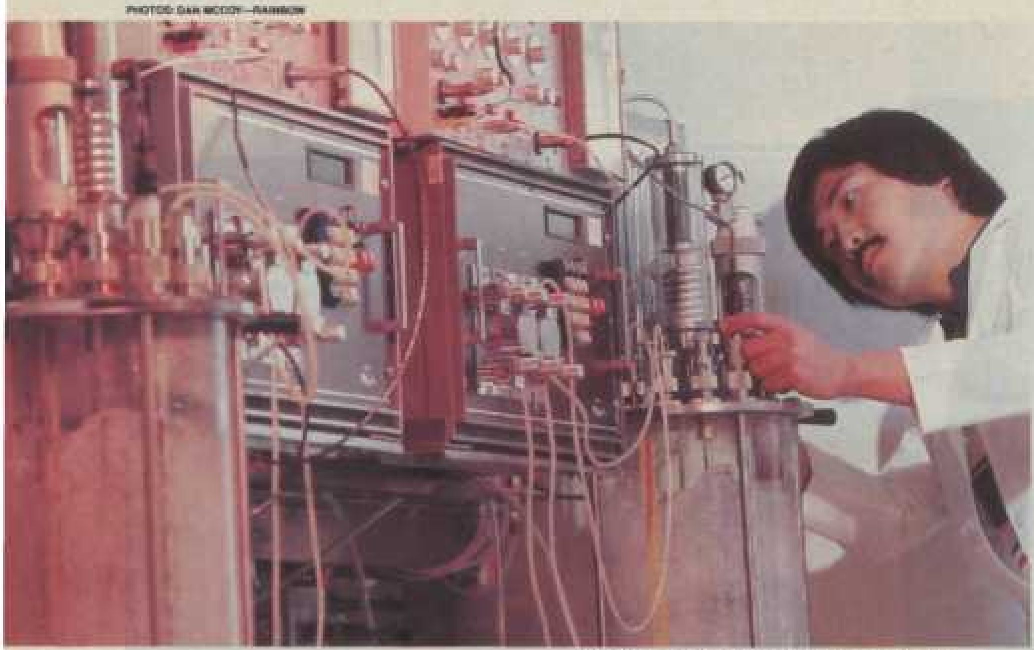
• Amgen, a Thousand Oaks, Calif., firm, is developing products for large companies—a bovine growth hormone for Upjohn and several diagnostic products for Abbott Laboratories. But it is also developing products that a small firm can sell on its own, in markets where a few businesses account for most of total demand. A chicken growth hormone and erythropoietin (which controls the synthesis of red blood cells) are two examples, says Philip Whitcome, director of strategic planning.

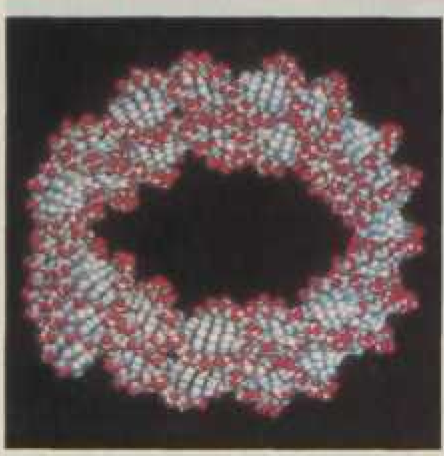
• Biotech Research Laboratories, Inc., of Rockville, Md., has been selling monoclonal antibodies (disease-fighting chemicals produced by cloned cells), viral diagnostic kits and other apparatus and services to laboratories conducting experiments in immunology and genetic engineering. "Our objective is to make our commercial products' sales an increasingly significant part of the company's total revenue," says President Thomas M. Li. More than three quarters of the company's revenue is, however, generated from research contracts with industry and the federal government.

• Cellular Products, a Buffalo, N.Y. firm, is, according to Vice President Jeffrey N. Meshulam, the world's largest producer of natural human interleukin-2 (which encourages the growth of T-cells that kill tumors and other abnormal cells) and the first commercial producer of the human B-cell growth factor (a derivative of white blood cells that is used to facilitate the growth of B-cells—producers of antibodies—outside the body).

"We're not trying to be a pharmaceuticals giant profiting from volume sales and diversity," says Meshulam. Instead, he says, the 20-employe bioventure's success will depend partly on its ability to provide biological substances "customized" to its clients' research and production needs. Medical devices, such as testing kits to assay blood and

PHOTOS: DAN MCCOY—RAINBOW





Working with life's genetic code, the DNA molecule, biotech scientists are developing in test tubes organisms that do not exist in nature.

urine, are also targeted for development and marketing within four years.

• Centocor, a Malvern, Pa., firm, produces three diagnostic drugs to test for hepatitis B-cells (cleared by the Food and Drug Administration) and gastrointestinal and ovarian cancer (FDA approval is pending, but the drugs are available for research). These drugs are unique and in "great demand now," says President Hubert Schoemaker. Contributing to the firm's unchallenged position in these diagnostics are its partnerships with pharmaceutical distributors that have proven sales networks.

• Interferon Sciences has specialized in making natural interferon, which defends the body against certain diseases. Leukocytes—white blood cells—are removed from human blood, placed in cultures and then infected with a virus. The interferon that these infected cells produce is harvested and purified. ISI is using natural interferon in an ointment to treat herpes patients in clinical trials in accordance with FDA guidelines.

Developing joint ventures is another cornerstone of ISI's future, says President Samuel Ronel. Collaboration with Anheuser-Busch, for example, has involved use of the brewer's beer vats to ferment a genetically engineered interferon-producing yeast. Result: a 10,000-fold increase, within six months, in the organism's ability to make alpha interferon.

ISI says that, of the three interferon varieties, alpha interferon holds the most promise of being the first on the market for therapeutic uses.

The products and services these bioventures are marketing are the first fruits of the revolution that biotechnology is causing in agriculture, the chemical industry and health care for humans and animals.

Says Alfred G. Scheid, president of California Biotechnology, Inc., in Mountain View: "Remember the computer industry in the 1960s? That's just where we are now." □

The Basic Techniques

New biotechnologies are based primarily on these techniques:

Gene splicing. Resembling a twisted ladder, the DNA (deoxyribonucleic acid) molecule, or gene, is built with nucleotides whose ordered sequence defines a cell's function. All organisms contain DNA and basically interpret it in the same manner.

To transfer the instructions coded in one single-cell organism's DNA molecule to another such organism, biotech firms remove from the donor's DNA a particular segment that is known to induce a specific activity. The "foreign" DNA segment is transferred to the host organism's DNA molecule, forming a new gene called recombinant DNA. If the gene splicing is successful, the host organism divides, and its changed nature is inherited by the new organisms that result.

Organisms created through gene splicing can manufacture substances that occur naturally only in scarce and impure quantities. Scientists have successfully spliced the genes of bacteria that synthesize interferon (a protein that is part of the body's defense mechanisms against viral infections like influenza, hepatitis and certain forms of cancer) and insulin (a hormone that controls blood glucose).

Biotech firms are looking at ways that new bacteria can be used to replace petroleum-based production methods for such industrial chemicals as ethylene oxide and methane. Other companies are experimenting with bacteria to extract copper and other minerals from open-pit mines.

Cell fusion. Through this technique, the particular characteristics of one cell are artificially fused with those of another to create a new cell, labeled hybridoma.

Researchers have combined the rapid proliferation traits of a tumor cell with the traits for producing a specific antibody (a protein that recognizes, binds to, destroys and removes foreign materials called antigens) from certain blood cells (B lymphocytes).

The promise of the result—an abundant supply of monoclonal antibodies—lies in diagnostic and therapeutic applications. In development are fluorescent antibodies that adhere to a tumor's surface and thereby make it easier for surgeons to spot and extract a tumor.

Bioprocessing. This technique refers to the engineering of biological processes used to synthesize such substances as cellular components, yeasts and enzymes. Raw materials are mixed with a catalyst in a bioreactor to produce a substance, which often must be recovered from the byproducts and then purified.

Bioprocessing offers alternatives to conventional methods of manufacturing drugs, vitamins, food additives and industrial chemicals.

Issues That Could Affect *Your* Business ... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
FY 1985 Budget/Taxes	Tax and budget votes by Congress this spring will affect national economic conditions for the rest of this year as well as for years to come.	Members of the House and Senate: Cut the deficit. Insist on equal amounts of domestic spending cuts and tax increases, dollar for dollar.
Immigration	Congress may require small businesses to meet extensive and burdensome paper work requirements if voluntary compliance provisions are dropped from the bill.	Members of the House: Insist that voluntary paper work provisions in the Judiciary Committee-approved bill be kept in final legislation.
Appropriation Bills	Additional federal borrowing to pay for nonessential appropriation items will affect the deficit and interest rates. Business expansion could be slowed.	Members of the House and Senate: Do not pander to special interests by failing to pass spending cuts agreed upon in the deficit reduction package.
Domestic Content	Protectionist sentiment would be intensified by passage. Although this bill to discourage auto imports may save jobs in one sector, it would cause a net loss of jobs nationwide because of foreign retaliation.	Members of the Senate: Vote against domestic content legislation both in the Commerce Committee and on the floor. Oppose any attempts to restrict the free flow of foreign trade. Passage would increase domestic unemployment.
Clean Water Act	The current law's pretreatment requirements have been impossible for municipalities to implement. Congressional delay in correcting the problem means reduced compliance and higher costs to business.	Senators, House Public Works Committee: Let municipalities develop pretreatment programs tailored to local needs. Cut administrative and technical burdens having little bearing on water quality.
Export Administration Act	Conferees will have an opportunity to significantly reform the export licensing process, thereby promoting America's reputation as a reliable trading partner. Failure to remove trade impediments will mean loss of exports and jobs.	Senate: Retain contract sanctity provisions. House: Retain House-passed language to reduce licensing requirements on trade with allies and to restrict extraterritorial application of controls. Remove Title III provisions in the House bill.
Hazardous Waste	Half a million small businesses will face a paper work nightmare if the Senate fails to correct a faulty House-passed bill. The Senate bill contains unrealistic deadlines for business.	Members of the Senate: Support the Environment Committee's amendments to retain necessary flexibility and provide extended deadlines for compliance.
Balanced-Budget Amendment	The amount of money Congress can tax and spend will be restricted if a balanced-budget/tax limitation amendment is approved by Congress and 38 states.	Members of the House and Senate: Support a return to fiscal responsibility by voting for a balanced-budget/tax limitation constitutional amendment.

The Labor Unions Shoot For a Powerful Weapon

Organized labor's bid for congressional action to overturn the *Bildisco* decision by the U.S. Supreme Court should be a cause of serious concern to business.

In this landmark case, the Court upheld the right of a company filing for Chapter 11 bankruptcy to repudiate a union contract without risking unfair labor charges by the federal government.

Congressional allies of the AFL-CIO are trying to negate the decision legislatively. They say such a step would merely clarify the original intent of Congress.

But much more is at stake. Labor is actually seeking a powerful weapon to use in its organizing campaigns, which have been meeting with decreasing success in recent years.

Labor organizers want to be able to tell targeted workers that, if their employer ran into financial difficulty, their only hope of job security would be a union contract.

This Capitol Hill drive against the Supreme Court decision is another attempt by big labor to reverse its declining fortunes with the aid of the power of the federal government.

The AFL-CIO failed when it sought similar assistance from Washington several years ago. The current attempt to overturn the *Bildisco* decision is equally deserving of defeat.

That Never-Say-Die Small Business Spirit

The Bank of America once consisted of a wood-plank counter and a canvas bag holding $80,000. Gail Borden worked 18 hours a day trying to start his condensed milk business in an abandoned mill.

King C. Gillette sold only 51 razors and 168 blades in his first year. Rowland Hussey Macy could not make a retail store go in the California gold rush. Willis Carrier was so worried about drawing a crowd to the introduction of his new cooling machine that he scheduled a boxing bout as an added attraction.

Obstacles Paul Galvin faced in launching Motorola included states that wanted to ban car radios as dangerous diversions. William Hewlett and David Packard had $500 in capital when they set up shop in a garage, using an oven in Packard's kitchen to bake paint onto the equipment they made.

That listing, occasioned by Small Business Week, May 6-12, could go on indefinitely. It is a reminder of the close bond between the entrepreneurs of yesterday and today. Each group, in turn, has faced problems, disappointments, crises and failures. Entrepreneurs of all generations have been undercapitalized, overworked and beleaguered by overzealous regulators.

But all those liabilities have been, and continue to be, offset by what is still the biggest single asset of most small businesses—the tenacity of the founder. It is also known as entrepreneurial spirit. The nation could not survive without it.

Tax Freedom Day: It Can't Come Too Soon

One of the most dramatic methods of depicting the tax burden on individual Americans is Tax Freedom Day. The Tax Foundation, an independent research organization, calculates the date by which the average person would meet annual tax obligations if all earnings from January 1 on went to taxes.

The foundation's calculations began with 1929, when Tax Freedom Day came on February 9. It moved into March in the 1930s and into April under pressure of World War II spending.

It slipped back in the immediate postwar years but soon began a progression that brought it in 1981 to May 7, the latest date reached thus far. Then, as a result of tax relief voted by Congress at President Reagan's initiative, there was a turn for the better.

The cutoff date was May 3 in 1982 and May 1 last year and again this year, for a gain of six days since 1981.

That is encouraging. But the fact remains that the average American still works four months—one third of the year—to pay federal, state and local taxes.

Taxpayers thus retain strong incentives for demanding that their elected representatives strive even harder to have Tax Freedom Day fall much earlier. □

WHY RUN OUT OF STAMPS WHEN YOU CAN GET POSTAGE BY PHONE?

Have you ever run out of stamps on the verge of getting out your invoices or at the end of the day when the post office was closed?

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All you have to do is make a toll-free call* to the RMRS Data Center and receive your special code number. Punch that code into your meter and you're back in business again.

That means no more delays and no more running out of postage. Thanks to the magic of the telephone, Mr. Pitney and Mr. Bowes.

For more information, call toll-free anytime (except Alaska or Hawaii) 800-621-5199 (in Illinois 800-972-5855). Or write Pitney Bowes, 1358 Pacific St., Stamford, Connecticut 06926-0700.

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